

OLD AND NEW TOOLS IN ITALY'S HOUSING POLICY. A PROBLEM OF INTERGENERATIONAL EQUITY

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Abstract

The housing problem has changed greatly in developed countries in the last thirty years.

Nowadays, most of them have more dwellings than the number of households, a very large presence of owner-occupied dwellings, and prevalently high-standard dwellings, as regards available floor space per capita, having a bathroom, kitchen and heating equipment, maintenance conditions, etc.

The current average condition of housing is therefore very different from what was the case in the phase of industrial development and mass urbanization. At that time the main problem was a shortage of housing in the developing areas (the main industrial cities), which affected the large number of rural families moving towards them. Nowadays, the housing problem affects a smaller quantity of households, but it closely concerns particular kinds of families, that is, primarily younger or more recently immigrated families, living in very expensive areas (main cities and tourist areas). The current housing problem is first of all a problem of economic affordability.

In the meantime, housing policy has also changed, mainly in the direction of increasing disengagement by the public sector, due on the one hand to the necessity to reduce expenditure, and on the other hand to the idea that the spread of home ownership had solved the housing problem in affluent societies once and for all.

For all these reasons, it is rather common for current housing policy to include a mix of old and new tools, which are weakly connected to each other and very different in terms of means testing criteria and the amount of public aid offered. This causes problems both in terms of public intervention equity and public expenditure efficiency. More specifically, a target efficiency problem emerges.

All the above-mentioned issues in the Italian housing policy model are investigated through the analysis of Tuscan administrative data on the recipients of two different tools: the traditional assignation of public houses for social rent and the newer allocation of housing allowances.

The above comparison is totally new and has been made possible by the recent transfer of competences on housing policy from national to regional governments, which forced the latter to revise the whole subject.

The following paper aims to reveal the conflicting characteristics of those receiving the old and new tools and to simulate the introduction of some changes in the selection criteria and in calculating the amount of public aid in order to achieve higher target efficiency and therefore greater social and intergenerational equity, while keeping the current total amount of public expenditure unchanged. These goals are particularly important when, as is presently the case, the economic crisis threatens to increase inequalities.

Introduction

The more decisive the family's role is in individual conditions, the stronger the intergenerational transmission of social inequalities. Housing is a typical field of welfare where the State's role can traditionally be strong or weak according to the prevailing conception of welfare system; it is well known, thanks to Esping-Andersen's works in particular, that there is a great distance between the traditional Northern European and Mediterranean welfare states, the former being much more generous than the second. The difference between the two models is particularly clear in housing, which is a basic element in the first case but only a residual component in the second.

The financial crisis which has affected the welfare systems of all developed countries since the 1980s partially reduced that distance and housing is a field of public intervention which experienced a big cut in expenditure. According to many researchers, however, the reason for that evolution can only be traced back to a problem of expenditure reduction in part and is much more closely linked to the idea that housing policy is pointless in affluent countries, where home ownership is broadly diffused (Whitehead, 2003; Priemus and Dieleman, 2002).

The result is that today the solution to the housing problem is basically left to individual resources and since housing is an expensive primary commodity, this helps enlarge social inequalities. Furthermore,

housing demand mainly arises from new families, which means young people, young couples, new immigrant families (so-called first-time buyers), and this implies intergenerational inequalities.

So young adults in developed countries have to face a difficult situation, if they cannot rely on their parents' (and/or grandparents') resources, because they have to cope with a less dynamic labour market and a less protective welfare state at the same time. As some researchers have pointed out, they are the first generation in affluent countries who risk experiencing a decrease in their standard of living. Without any doubt, having or not having a suitable dwelling, in terms of location, quality, dimension and price, is an important element of that standard of living.

The present paper aims to show how in the Italian case, which has traditionally been characterized by a weak public housing policy, the shift from more to less generous welfare interventions provokes a problem of equity between "old" and "new" recipients of public aid. The opportunity to make this comparison arose thanks to the recent transfer of housing policy competences from national to regional governments, which has obliged the latter to make a general revision of the matter. Considerations about the Italian case are drawn from the analysis of unpublished Tuscan administrative data, which can be viewed as a high-medium standard example of the national situation since the decentralization of competences is very recent. The comparison between old and new recipients of public aid is carried out using the target efficiency indicators formulated by Beckerman in 1979.

The paper is organized as follows: the first and the second paragraphs briefly sketch the main characteristics of housing as a commodity and the chief changes in housing policy in developed countries, the third paragraph describes the theoretical approach and the methodology that will be used in the work, while the fourth paragraph aims to point out the particular situation in Italy regarding housing conditions and policies in comparison with some Western European countries. Finally, in the fifth paragraph Tuscan administrative data is used to show that current housing policy tools are not very satisfactory either in terms of the efficiency or effectiveness of the public expense, thus provoking intergenerational inequalities. A straightforward simulation exercise is used in the same paragraph to show how the simple redistribution of public aid among the current beneficiaries of old and new tools can improve intergenerational equity.

1. Houses: a special commodity

Houses are an important primary good: their qualitative characteristics (location, dimension, state of preservation, facilities equipment, etc.) and economic burden have strong repercussions on people's quality of life and households budgets. The main rationale for government intervention in housing market is that houses are considered a merit good, that is a commodity whose consumption has to be assured to every person by the public sector because of its positive effective on society (Whitehead, 2003). In other words, helping people to obtain a suitable dwelling allows to improve general health conditions, to control crime, to foster the match between labour demand and supply, to reach a more satisfying income distribution, etc.

A further peculiarity of housing lies in the fact that it is a good traded on many different markets, thus its price is determined by a lot of factors (i.e. not only the number of families demanding a dwelling, but also the interest rate and the yield of other investments) and affects many aspects of the socio-economic system. Some examples can explain the concept. Building and property market sectors represent an important share of the total added value and occupation and bricks and mortar investments are commonly used to get over the critical phases in the economic cycle. Moreover, difficult access to the housing market is traditionally considered one of the main obstacles to labour force mobility and therefore the main reason for the persistence of high levels of local unemployment (Cipolletta et al., 2006; Oswald, 1999). More recently, difficult access to the housing market is considered the principal explanation for the increase in commuters (Priemus and Dieleman, 2002). Furthermore, rents are an important component of the consumer price index because strong variations in real estate prices, which have repercussions on rents, can provoke remarkable inflationary effects. Housing expenditure is, finally, one of the most important items in household budgets, so when the real estate prices rise a great deal, the intensity of social inequality also tends to grow. Thus public involvement is required to protect the purchasing power of low-income households and to ensure them minimum housing standards.

2. The evolution of housing policy in developed countries

For all the abovementioned reasons, it is possible to affirm that housing policy has a direct purpose, which is to assure a suitable dwelling for the largest number of families, as well as many indirect purposes, such as stimulating aggregated demand, promoting social cohesion, constructing good quality buildings, income redistribution, etc. Purposes and tools, as will be shown below, change according to market conditions, prevailing political ideology and available funds.

As in other welfare fields, the government may intervene in three fundamental ways, which are regulation, taxation or subsidies, and the direct provision of goods. In particular, there are five kinds of most common housing policy tools: a) planning and building regulation, which aims to fix minimum standards both for residential areas and for single dwellings; b) private market regulation, which generally lies in interventions for the control of private rents, with the aim of maintaining affordable housing for low-income households; c) the accordance of mainly fiscal incentives to promote owner occupation; d) building a more or less large public housing stock, whose goal can be to bring down market prices through an increase in supply or simply to provide housing to vulnerable groups; e) the reduction of rent burden for the low-income group through family income allowances.

Each instrument has advantages and disadvantages, can be more suitable to cope with supply-side or demand-side problems, can be better suited to universal or selective interventions, etc..

Several classifications of housing policy tools are possible, but one of the most common is the one which distinguishes between bricks and mortar subsidies and housing allowances. The first ones are typically supply-side policy instruments, whose main purposes are to increase housing supply and to improve the quality of housing stock. That is the reason why, in the European context, they are considered traditional instruments. Their use peaked in the first decades after the Second World War. The provision of a large public housing stock for social rent is the most common intervention as concerns bricks and mortar subsidies, while the allocation of public grants for social owner-occupied housing is the second in line.

On the contrary, housing allowances are typically demand-side tools, which fit better when the main problem concerns housing affordability rather than housing supply or characteristics. The purpose of housing allowances is to allow low-income households to afford adequate housing, that is, accommodation that meets minimum standards in terms of its condition and size relative to households' needs, but also accommodation whose cost is bearable for the household income. Therefore, the shift from bricks and mortar subsidies towards housing allowances reflects the changing perception of the housing question, from a focus on the supply and quality of the housing provision to one that is more concerned with affordability (Kemp, 2007).

This argument brings up a further criterion of classification for housing policy tools, that is, the extent of the potential recipients. Housing allowances are considered more suitable for contexts characterized by the requirement of public expenditure control and the concentration of need on limited vulnerable groups, because they allow more targeted approaches. In other words, housing allowances are almost by definition pro-poor, while bricks and mortar subsidies and in particular social housing is not necessarily pro-poor and has often benefited the middle-income working classes (Kemp, 2007). Finally, bricks and mortar subsidies and in particular the public provision of social rented housing are more in tune with social-democratic ideas, while housing allowances are preferred in neoliberal contexts because they appear to promote individual choice, while helping poor families to enter the market without subverting its functioning.

So, the choice among the different possible tools depends on the general targets, the market characteristics, public resource availability, and last but not least on the prevailing ideological convictions (Whitehead, 2003). In broad terms in very competitive environments, such as in the USA, demand-side and selective approaches are preferred, while in contexts with a traditional presence of an important welfare system, such as in Western Europe, interventions with the opposite characteristics are preferred.

Anyway, in recent decades Western European countries have also been affected by a progressive switch from bricks and mortar subsidies to housing allowances. Western European housing policies of the last fifty years can be roughly divided into three phases: a first characterized by the building of an important public social rental sector (often together with controls on private rents), a second where the promotion of home ownership prevailed and a third, the present phase, in which housing policy is intended as income support for poor families' housing expenditure. Obviously, the sequence of the three phases is not so well defined and differences among countries can be considerable, but it is possible to underline a trend shared by developed European areas, where the rise in the general level of affluence is correlated to the spread of home ownership and public commitment cuts in the field. So current housing policy interventions have to be, in many policy

makers' opinions, less expensive than traditional ones and, therefore, they need to be more selective. Housing allowances seem to meet these requisites better than other instruments.

3. The target efficiency problem: definition and measurement

According to economic literature, there are three main advantages of selective welfare instruments: they allow for a reduction in public expenditure, they are more effective in income redistribution, and they are more flexible and therefore more suitable for changing social contexts (Toso, 2000).

Among the three quoted advantages, the first is probably the most important in explaining the political success of selective welfare policies since the 1980s.

There are some disadvantages too. More selective welfare instruments require a number of important decisions to be made, which crucially affect who is eligible to apply and how much public aid they are entitled to. More precisely, means testing requires some important matters to be solved, such as defining the unity of analysis (individuals or families), selecting the most appropriate variable to represent their financial situation (income, assets value, consumption expenditure, etc.), and fixing the criteria to compare families or individuals with different characteristics (number of components, presence of children, elderly people, etc.).

For all the abovementioned reasons, selective welfare instruments such as housing allowances can involve a great collective cost. First of all, they involve high administrative costs during the fixing and testing of the eligibility criteria. Then they are subject to two kinds of mistake which involve social costs: including non-needy subjects (the so-called false positives) and excluding needy ones (the so-called false negatives). The first kind of error causes a waste of public resources and, therefore, the failure of the aim to reduce public expenditure. It namely implies a deficit with regards to the economic efficiency goal. The second kind of error, instead, misses the social goal of public intervention, that is, the improvement of low-income households' housing conditions (housing affordability included). This kind of error implies a deficit in hardship reduction efficiency, and can be more simply summed up as an effectiveness deficit.

The central matter the present paper aims to deal with is not to estimate the target efficiency of a single instrument, that is, housing allowances, but rather to estimate their target efficiency in comparison with another current housing policy tool, which seems to be meant for the same social groups, at least as far as Italy is concerned. The argument to be demonstrated is that the evolution in housing policy instruments briefly sketched out above requires not only a reduction in public expenditure and a shift from traditional to newer tools, but also the reconsideration of how the old ones work, if they are still functioning. This is because the general purpose can be the same (e.g. to respond to low-income families' housing needs), but the recipients can differ significantly merely because traditional instruments use less selective eligibility criteria. In other words, just like other welfare services sectors, the housing policy field seems to be affected by the problem of inequality between old and newcomers and at worst between insiders and outsiders. The problem of target efficiency as it is meant in this work is therefore strictly connected with the equity problem.

A well-known instrument for the measurement of target efficiency is the scheme formulated by Beckerman in 1979 with regard to the allocation of income allowances against poverty. Measuring the target efficiency of a policy not only implies considerations about the efficiency of the public expenditure, but also about its effectiveness, because the target efficiency depends on both how the public expenditure is allocated and its size. Beckerman's scheme allows both aspects to be considered (Figure 1).

It supposes that a public benefit can act on 4 kinds of recipients:

- families who are beyond the relative poverty line;
- families who pass the relative poverty line thanks to public aid;
- families who reach the relative poverty line thanks to public aid;
- families who do not reach the relative poverty line in spite of public aid.

The concept of the relative poverty line is therefore crucial. Selective welfare systems assume that public aid has to be ensured to needy people only and this implies the use of some instruments to measure necessity. The most common needs test compares individual or family income to a tolerable threshold, which can be either the absolute or the relative poverty line. The first term generally means an income level barely high enough to permit survival, while the second refers to an income level permitting the level of consumption considered common in a certain social context. In practice, the relative poverty line usually means an income level corresponding to 60% of the national (or regional) median equalized income.

In developed countries, where primary needs are generally satisfied, the threshold is usually represented by the relative poverty line. On the basis of the family position with regard to that threshold, before and after the allocation of public aid, it is possible to calculate different target efficiency indicators.

Assuming that the public intervention shifts the family income level from line Y_0 to line Y_1 , area A represents the share of public expenditure allocated to households who reach the relative poverty line thanks to public aid, area B the share of expenditure given to households who pass the relative poverty line thanks to public aid and area C the share of expenditure assigned to households who receive public aid despite already being beyond the relative poverty line, while the sum $A+B+C$ represents the total amount of public expenditure for welfare benefits. Finally, area D is the missing share of expenditure which would allow all poor households to reach the relative poverty line.

The target efficiency indicators are calculated on the basis of the proportion among the different areas. More exactly they are:

- the vertical expenditure efficiency indicator, which is the share of the total public expenditure allocated to households who would otherwise be relatively poor, calculated as $(A+B)/(A+B+C)$;
- the horizontal expenditure efficiency indicator, which is the share of the total public expenditure allocated to poor households which allows them to reach the relative poverty line without going beyond it. It is also called poverty reduction efficiency, calculated as $A/(A+B+C)$ or as $A/(A+D)$;
- the spillover effect indicator, which is the share of exceeding expenditure in comparison to the amount necessary to bring all the poor households to the relative poverty line. It is calculated as $(B+C)/(A+B+C)$;
- the poverty gap efficiency indicator, which is the additional share of expenditure needed to allow all poor households to reach the relative poverty line. It is calculated as $D/(A+D)$.

Maximum target efficiency is when vertical expenditure efficiency is 1, horizontal expenditure efficiency is 1, the spillover is 0 and poverty gap efficiency is 0.

Thus target efficiency indicators are useful for evaluating both the efficiency and effectiveness of the public intervention, because they make it possible to check if the public aid is given to the right households (the poor ones), avoiding waste of public resources, and if it amounts to enough to satisfy the social goal it is intended for. In other words, they allow us to make compatible considerations about efficiency and equity.

For this reason, target efficiency indicators are often associated with measures of inequality in household income distribution, such as the Lorenz curve and the Gini index. This is also how the quoted instruments are used in the present work.

4. Italian housing conditions and policy in the European context

In order to make the matter under discussion clearer, the present paragraph tries to point out the main peculiarities of the Italian housing conditions and policy system in comparison with some other Western European countries. Italy shows some typical aspect of the Mediterranean model (Table 1).

In most affluent areas, the aggregate housing supply is generally equivalent to or exceeds the demographic demand (number of families), but those tending to show an excess of supply are southern countries such as Spain and Italy, which is probably due to the presence of a considerable stock of holiday homes.

The percentage of owner-occupied houses out of the total stock differs across the countries but it tends to be higher where housing supply is higher too. In Spain, for example, more than 8 out of 10 houses are owner-occupied, with more than 7 out of 10 in Italy. But Great Britain is characterized by a high presence of home ownership too.

All in all, European countries have experienced a sizeable increase in home ownership in the last 25 years. Where the rental sector is now very small, like in Italy, it is the private segment which has strongly decreased, while the public one has kept more or less at the same level as 25 years ago, therefore increasing its consequence on total rental stock (from 13% to 24%). The opposite development has instead been experienced in countries where a large amount of public rental housing was created in the post-war decades, in particular, in the United Kingdom. Notwithstanding this, the supply of social rental dwellings is still much more sizeable than in Italy and Spain: there are 21 social dwellings for every 100 households in the United Kingdom against 5 in Italy and less than 2 in Spain.

The shortfall of the rental sector (both social and private) often corresponds to a worsening of the tenants' social conditions: in other words, where the rental stock is small and decreasing only the poorer, who are not

able to achieve home ownership, stay in this position as the distribution of low-income households by tenure clearly shows. It is important to point out how housing expenditure represents a higher share of the total consumer expenditure for these social groups (Table 2).

Housing policy size and tools have to be analysed in the more general context of social expenditure (Table 3). Along with Spain, Italy shares the lowest levels of efficacy in social expenditure: the number of people at risk of poverty only goes down by 4 points after social transfers, probably because of both the small amount of expenditure and its inadequate division by function (the percentage of expenditure set aside for old age and survivors is the largest in all the countries considered).

Italian social expenditure is particularly disproportionate, at the expense of younger generations. Only teenagers and retired people profit from a positive net social transfer (difference between taxes paid and transfers received for education, health, old age pensions, etc.), while the age groups in-between suffer from a negative one. While the expenditure for education and old-age and retirement pensions is necessarily concentrated on specific age brackets, this is not true for general social expenditure such as housing, income allowances against poverty, unemployment benefit, etc., but in the Italian case these items of expenditure are very small. Helping young adults to become independent is actually a family duty. The role played by the family of birth in helping young adults to get their first home is decisive. Some data can explain the situation. Among developed countries, Italy is characterised by the longest cohabitation of parents and adult children: in 2003 30% of people aged between 30 and 34 still lived with their parents, 25% of them saying they were unable to meet housing expenses, while those who believed they would leave their parents' house soon thought it would involve a considerable drop in their standard of living. Furthermore, of those who leave the parental dwelling because of marriage (70% of the total), 54% go to live in a rented house, 26% in a house received from the family of birth, and 20% buy a new house, but 42% of them receive financial aid from their parents or other relatives.

Public policy's contribution to solving the housing problem is therefore weak and, because of the lack of coordination between traditional and newer tools, it leads to unfair treatment for younger families.

As the following analysis of Tuscan data will demonstrate, public housing (the traditional tool) implies very high protection to families who are not always in conditions of hardship (because of the low recipient turnover), while housing allowances (the newer tool) imply a smaller amount of public aid to families who are on average in worse economic conditions.

5. The problem of intergenerational equity through the analysis of Tuscan administrative data

Of the principal current housing policy tools, two derive from the traditional social housing system (ERP), which saw its greatest development from 1978 to 1998, while one reflects one of the main changes introduced by the last national rent market law (1998).

The two ERP system tools (Public Residential Housing system) are constituted by public social housing ("*edilizia sovvenzionata*"), which means dwellings exclusively built using public funds for rent at a very low price to low-income families; and backing for home ownership ("*edilizia agevolata*"), which means houses built partially using public funds for sale to middle-income families. Both are supply-side tools, because they take the form of building new houses. The most recent tool is instead a demand-side intervention, because it consists of the allocation of public funds in the form of housing allowances ("*contributo per l'affitto*") to low-income families who have to pay a market rent.

According to the administrative data supplied by the regional government of Tuscany, in 2006 there were about 50 thousand public houses ("*edilizia sovvenzionata*") (3.8 dwellings per 100 households), about 13 thousand of which built thanks to funds allocated in the 1978-1998 period. In the same period, about 8,400 dwellings were built thanks to partial public support ("*edilizia agevolata*") and the total stock can be estimated at about 32 thousand houses. This means that in Tuscany totally and partially public-aided houses account for about 6% of the total housing stock, and it confirms that solving the housing problem has traditionally been left up to market mechanisms. Furthermore, in 2006 about 16 thousand families (1% of total families and 5% of families in rented houses) received housing allowances amounting to an average of 130 euros per month.

In purely theoretical terms, the three current housing policy tools, public housing, supported home ownership and housing allowances, should outline (in the order listed) a decreasing public support system. In other words, the recipients of the first tool should be poorer (or at least more problematic, e.g. large families,

young children, disabled people, etc.) than the recipients of the second, who are in turn poorer than the recipients of the third.

The data analysis shows that this is only partially true (Table 4).

The contrast is particularly marked between public housing and housing allowance recipients. The latter are on average poorer than the former, but they receive more public aid for two reasons: because the amount of the allowance is poor in comparison to the advantage of living in a public house at a very low rent and because its allocation is decided year by year so it is more uncertain than the assignation of a dwelling. The relative position of families supported by the public sector to accomplish home ownership is instead more consistent (they have the highest income among aided families) and therefore it will be analysed no further in the present work.

The family structure analysis clearly shows how one of the main reasons for that output is the low turnover of public housing assignees. Among them, one family in four only has adult children, while among housing allowance recipients only one family in three has young children. It sounds sensible to think that most public tenants obtained the dwelling when their condition (income level, presence of young children, etc.) was worse than today and that only an inefficient control system and outdated selection criteria allow them to keep their public house assignation. The prevailing family geographical origin confirms this interpretation. Most of public tenants are either Tuscan (61% out of the total) or from Southern Italy (31%), namely families who came to Tuscany during the 1960s and 1970s, while only 8% are from foreign countries, namely people who arrived in Italy in the 1990s and who represent 1/3 of housing allowances recipients.

As for the different groups' living conditions, which can be considered the housing policy output, there is confirmation of what is underlined above. Public tenants and housing allowance recipients live in similar dwellings in terms of dimension (average 68 m²), but they get a different amount of public aid, which can be quantified as an average of 340 euros per month for the former and 220 euros per month for the latter. The distance increases if we bear in mind that the latter are much poorer than the former (1,500 euros monthly against 950).

So the recipients' characteristics analysis shows a strong incoherence between public house assignation and housing allowance allocation, because the beneficiaries of the second tool meet all the requirements to access the first one but they do not obtain it because of the supply shortage, while a part of the beneficiaries of the first tool should in fairness shift to the second one. In other words, there is a problem of target efficiency, as formulated in the economic literature.

5.1 Target inefficiency due to selection criteria

It was pointed out above that target inefficiency depends on two main factors: a) the selection criteria used, with traditional tools appearing outdated and, primarily, different from the criteria used in the newer tools, b) the insufficient turnover of public tenants, considering that the longer they stay in public housing, the larger the distance becomes between eligibility criteria and family characteristics.

This paragraph will analyse the first aspect.

In public housing, traditional criteria are used to select the assignees, based on the notion of "Conventional Income" ("*Reddito convenzionale*"). This is a special income calculation based on two characteristics: a) the family burden is calculated through an income deduction system instead of through use of an equivalence scale; b) income from non self-employed work and from pensions is only calculated at 60% of its real total amount, while income from self-employed work is calculated at 100% of the total.

The first characteristic simply derives from a more traditional way of calculating the family burden, which is still used for calculating Personal Income Tax (IRPEF).

The second characteristic, instead, is justified by the initial reasons for public housing. In the post-war period, social housing was considered as expanding the supply of affordable houses for working-class families, and was financed by workers and employers through a specific tax (GESCAL). This option found another collective justification in the Italian context, which is traditionally characterized by high levels of tax evasion, because income not from self-employment is generally considered less able to profit from it. Yet it means that this system has commonly been used as a rough tool to fight tax evasion. "Conventional Income" is also used to determine the amount of rent due (which is generally very low) and the loss of the right to a public house (the upper limit is rather generous: the admission level plus 75%), so it is rather common that

middle-income families (whose income derives mainly or exclusively from non self-employment) keep the right to stay in public houses, paying very low rents, for a long time.

For the allocation of housing allowances, which is a newer tool, different and more selective criteria are used. The fundamental notion is “ISEE income” (Equivalent Economic Situation Indicator), a particular income calculation which was introduced in Italy in 1997 to unify the means testing criteria used by the different government levels for admittance to social benefits. The main changes brought about by the “ISEE Income” are the following: a) the household economic situation depends on the income amount plus a share (20%) of the asset value (with a 52-thousand-euro allowance for owner-occupied dwellings); b) all income is calculated at 100%, regardless of its source; c) the family burden is calculated through use of an equivalent scale. The “ISE income” is simply the “ISEE income” not divided by the equivalent scale (Figures 2-3).

So, old and new tools use very different criteria for income calculation, and end up selecting different people. Furthermore, each tool uses its income limits to determine admittance to and exclusion from social benefit. It can therefore happen that a needy family that is not presently given any public benefit (a sort of newcomer to public benefit) is poorer than a family still living in a public house, but too rich to be admitted to housing allowances, with the aggravating circumstance that the less needy family, living in the public house, is given a very sizeable public aid.

A single example can be enlightening. A family of 4 people, with an income of about 44 thousand euros per year coming exclusively from non self-employment, cannot be admitted to housing allowance but they do not lose the right to live in a public house if they are already living in it (in other words if they are old comers to public benefit) and have to pay a rent of about 290 euros per month (calculated using their conventional income) against market rents which in the suburbs range from 500-700 euros per month (Figure 4).

5.2 Target inefficiency due to missed turnover

Besides the criteria used, the inefficient selection of recipients depends on a certain laxity in their application. Recent research referring to the whole national territory registered that 47% of public tenants have been in this position for over 16 years, and a further 35% for a period from 6 to 15 years. It means that only 18% of present public tenants have been in this position for less than 6 years. Public housing is therefore a clogged system, which continues to guarantee high protection to the insiders, even if outsiders' families are frequently in a more needy condition.

The reasons for this situation depend on three different aspects: a) the presence of exit barriers, represented by preferential treatment for non self-employment income, a generous upper limit and the imposition of rents that are too cheap; b) the lack of intermediate policy tools between the high protection assured by public housing and the pure market mechanism for middle-income families; c) the presence of bureaucratic delays, political consensus objectives and nepotism, which make loss statements and evictions very difficult.

The Tuscan administrative data confirms the situation described.

More than half (52%) of current public tenants got the dwelling before 1987, which means more than twenty years ago. Household distribution per length of dwelling allocation clearly shows that the longer the stay, the larger the distance between family characteristics and eligibility criteria.

Families enjoying a longer stay have distinctive characteristics: they are richer, their income mostly comes from pensions, they mainly do not have young children, they chiefly originate from Tuscany, they live in larger apartments and pay more expensive rents (because their income is higher), but in any case they are cheaper than market rents (Table 5).

The data analysis confirms that public housing is a problematic housing policy tool, because there is too little supply and turnover is insufficient. The result is a very discriminatory system that separates a group of old comers (or insiders) receiving high public aid, from a group of newcomers (outsiders), whose economic conditions are sometimes more serious, while receiving little or no public aid. To improve this situation it is necessary to act on the reasons for it, i.e. to increase the public housing stock, to raise the turnover, to adopt more selective criteria for recipients and to interconnect traditional and new housing policy tools.

This work will show how a simple homogenization of selection criteria can improve the income distribution of families supported by the public sector, thus increasing equity.

5.3 A simulation exercise to improve intergenerational equity

This paragraph contains a simulation exercise based on the data of Tuscan families who currently benefit from public houses and housing allowances. The exercise tests the introduction of some changes in selection criteria and the shifting of a part of public resources from one tool to another, in order to achieve a more even distribution of public aid.

The simulation exercise goals are the following:

- a) to test the introduction of a stronger connection between two different housing policy tools, obtained through the adoption of the same recipient selection criteria;
- b) to test the reduction of public aid for less needy families in order to permit greater aid for more needy families while keeping the total amount of public expenditure unchanged;
- c) to test a new combination of public aid in order to solve the conflict between old and newcomers to welfare and to give the same degree of social protection to the same degree of need.

The simulation exercise is carried out through the following three phases.

To make the comparison between the two policy tools possible, it is necessary to express the assignment of a public dwelling in monetary terms as happens for the housing allowances. This is done by calculating the difference between the rent paid and the market rent. As a proxy for market rents it has been decided to take rents paid by families currently receiving a housing allowance, assuming that both kinds of families refer to the same housing market segment, that is, cheap houses in the suburbs.

To order all the families using the same measure, it has been decided to use “ISEE Income”, because its characteristics seem to be more suitable for present circumstances. In particular, the special calculation for non self-employment income cannot be justified by reasons of fiscal equity anymore, because the present and the future housing policy is not only paid by workers and employees but by the whole community; furthermore, the recent evolution in Italian labour market regulations (high labour flexibility and low social protection) has made the difference between non self and self-employment less clear, so part of the current poverty affects self-employment too, mainly in the case of young people (or labour market newcomers). As for the family burden evaluation, the equivalent scale system is thought to be more reliable because it considers both income and assets and even the presence of family economies of scale. It is true that this new means test does not solve the problem of Italy’s widespread fiscal evasion, but it is also true that this is not its primary goal. Finally, a problematic aspect of the “ISEE Income” system regards the single person situation: housing expenditure is relatively higher for people living alone because of the indivisibility problem and so it is necessary to introduce a partial income abatement for these people.

To complete the exercise it has been assumed it is possible to change the amount of public aid received by each family, in order to allow the greatest number to cover the poverty gap. In real terms, this means that the social aid received by public tenants can be decreased by raising rents, while the social aid received by housing allowance recipients can be increased by raising the actual amounts of the allowances. In the simulation exercise it has been assumed that family preferences stay unchanged in spite of changes in public aid allocation.

An interesting result is given by simply substituting the “Conventional Income” system with the “ISEE Income” system. It is important to underline that the traditional “Conventional Income” system is not very selective, while the real selective effect is created by the short supply of dwellings. This mechanism creates social inequity because it gives a lot of importance to when housing problems appear (a sort of a generation effect), so it is rather common that aided families (that is, families living in public dwellings) are richer than unaided ones (that is, families on the waiting list for public dwellings). In confirmation of what has been said above, according to the “Conventional Income” system, 44% of Tuscan families would have the right to obtain a public dwelling and 72% of the public dwelling assignees would have the right to stay in them; if excluding owner-occupiers families (because house ownership is cause for exclusion), 50% of the total remaining families would have the right to obtain a public dwelling and 82%, if already public dwelling assignees, would have the right to remain. It means that about 180 thousand families would have the right to obtain a public dwelling against the 50 thousand present. A certain laxity in the application of the rules worsens the current condition. According to Tuscan administrative data, 5% of present assignees are over the upper income limit and 21% are between the admittance and exclusion limits.

If we keep the admittance and exclusion income limits unchanged and we change the income evaluation system, the above-mentioned rates obviously increase. If we are to keep the “Conventional Income” system, but simply suppress the special treatment for the non self-employment income, the rate of present assignees over the upper income limit rises from 5% to 22% and the rate of present assignees between the admittance

and exclusion limits rises from 21% to 28%. On the contrary, if we use the “ISEE Income” system, only 1% of the present assignees result over the income upper limit (Figure 5). This means that, if present circumstances call for a more selective approach for social benefits, both the income evaluation system and the income thresholds should be revised.

Bearing in mind what has been mentioned above, an exercise of resource redistribution between the public housing and the housing allowances sectors will follow.

According to the available administrative data (which refers to 50% of public tenants, including those living in the two main cities, and 100% of housing allowance recipients for 2006), the Tuscan Regional Government spends about 185 millions euros per year with the following proportions: 74% for public tenants and 26% for housing allowance recipients. Public tenants on average receive a public aid of 5,600 euros per year, while allowance recipients obtain 2,600 euros per year. Using the “ISEE income” system, public tenants have an average calculated income of 8,900 euros per year, while the income for allowance recipients is 3,700 euros per year. The poverty existent in the two groups of public aid recipients is therefore very different. If we are to use a relative poverty line equal to 60% of the median Tuscan family’s equivalent income (that is 10,075 euros per year), 58% of public tenants stay under that line, against 88% of allowance recipients (Table 6). By reversing the problem, it means that 42% of public tenants and 12% of allowance recipients are receiving social aid without being poor.

In monetary terms, it means that 53 million euros of public expenditure for public housing (38% of total expenditure) and 5 million euros of public expenditure for housing allowance (10% of total expenditure) are spent on families who are not needy. Furthermore, 10 million euros of the first tool (7% of total expenditure) and 2 million euros of the second (4% of total expenditure) are in excess in comparison to families’ real needs, because though they are taken by poor families, they amount to too much. On the contrary, an additional expenditure of 82 million euros would be necessary to allow all poor families to reach the relative poverty line (Table 7).

The present housing policy efficiency target is therefore insufficient.

If Beckerman’s scheme is applied to the Tuscan case, the following results are achieved (Table 8).

“Vertical expenditure efficiency”, which is the share of total public expenditure assigned to families who would otherwise be poor, represents only 61% of the total in the case of public housing and 90% in the case of housing allowances. “Horizontal expenditure efficiency”, which is the share of the total public expenditure assigned to poor families that allows them to reach the relative poverty line (without exceeding it), stops at 55% of the total in the case of public houses, while it reaches 86% in the case of housing allowances. Consequently, the spillover effect (or waste of public resources) is 45% of the total in the case of public houses and 14% in the case of housing allowances. All the indicators are more satisfactory in the case of housing allowances, demonstrating that it is a more efficient tool because of its greater selectivity. On the contrary, its problem is that it is too weak, because it does not allow a big part of families to reach the relative poverty line, in other words it suffers from an efficacy deficit. The missing public expenditure, which is necessary to allow all poor families to reach the relative poverty line, is in fact 56% of the total, against 28% of the total in the case of public houses.

Starting from the results described above, we make a simple redistribution exercise of present total public expenditure. More precisely, the simulation implies the decrease in public aid for families who go beyond the relative poverty line (that is, who received more aid than needed) and, thanks to the saved resources, the increase in public aid for the families who, in spite of it, still remain poor. Since the saved resources only cover 68% of the total requirement, they will be redistributed to all poor families in order to reduce the distance between the present income situation and the relative poverty line by 68% each. It means that no poor family will reach the relative poverty line, but all the poor families will get nearer to it.

As shown by the Lorenz curve (which is the most common indicator used to measure inequality in income distribution) and the Gini index (which is the numeric measure of the abovementioned inequality), the simple redistribution of present public resources clearly improves the initial situation. The Lorenz curve gets nearer to the bisector line (that is the line of perfect equality) (Figure 6), the Gini index passes from 0.379 to 0.299, while the spillover effect obviously passes from 37% to zero and poverty gap efficiency decreases from 48% to 13%.

Conclusions

Italian housing policy has traditionally accounted for a small sector of the welfare system as regards its financial size. Furthermore, it has been characterized by a large range of tools, with little connection to each other. This aspect has been worsened by the 1998 reform, which “froze” the traditional tools by suppressing their financing, but kept the criteria for recipient selection unchanged, and introduced new tools with totally different selection criteria.

As happened in other welfare fields, the shift from a more to a less public expenditure tends to enlarge the gap between generations, at younger people expense.

The fact of the matter is that, in the Italian context at least, current housing policy is based on two main tools, traditional public housing and the newer housing allowances, which appear to be targeted at the same social rank (low-income families) but differ significantly as to the selection criteria used and the dimension of the public aid allocated. In particular, the more traditional tool, public housing, is considerably more generous than the newer one, thus creating a problem of intergenerational equity (also because of the missed turnover of recipients).

The evidence for the situation described derives from the analysis of Tuscan administrative data, which can be considered a good proxy for the national case because housing policy competences were only decentralized recently.

The data analysis actually confirms the strong contrast existing between the traditional tool of public housing, which gives a great deal of public aid to a small number of long-term beneficiaries, and the new tool of housing allowances which, in consideration of present public budget constraints, gives a smaller amount of public aid to families whose condition of need is stronger but newer.

Therefore, using Beckerman’s target efficiency indicators on both tools gives unsatisfying results: the public housing sector shows a remarkable spillover effect, in that a big part of its expenditure is allocated to families who are not poor (considering their position in comparison to the regional relative poverty line), while the housing allowances sector suffers from an important lack of financing, in that a sizeable share of the supported families cannot reach the relative poverty line. In the first case, there is a problem of efficiency in public expenditure or, in other words a waste of public resources, while in the second case there is a problem of the public intervention’s effectiveness, because the amount of allocated resources is too small in comparison to the social need. On the whole, there is a problem of equity between old and newcomers to public aid.

The paper shows a simple way to improve intergenerational equity. It is an exercise in redistributing public aid among current beneficiaries of old and new tools, done by introducing a common means test and decreasing the excess aid (that is, the public aid which takes the families beyond the relative poverty line). It is obvious that far-reaching reforms could be made to the housing policy sector, but even a simple redistribution exercise is enough to improve all the efficiency and efficacy indicators.

The analysis of Tuscan administrative data therefore allows us to empirically verify how the correct individuation of the target population for public policies is a crucial matter nowadays, both for efficiency reasons, in order to avoid the wastage of public resources in a period of pressing budget constraints, and for equity reasons, in order to help each family in proportion to their needs.

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TABLES AND FIGURES

Table 1. Housing availability per tenure in some Western European countries. 1980 and 2004

	Dwellings Stock (*1,000) 2004	Dwellings per 100 households 2004	2004			1980			Social Rental Dwellings per 100 households 2004	Social Rental Dwellings per 100 households 1980
			% Owner-Occupied	% Private Rent	% Social Rent	% Owner-Occupied	% Private Rent	% Social Rent		
Italy	29,328	132	73	14	4	59	31	5	5.3	5.9
France	30,586	117	57	23	17	47	26	15	20.0	19.5
Germany	39,363	101	45	49	6	39	na	na	6.0	na
Netherlands	6,810	97	56	10	34	42	24	34	33.1	32.9
United Kingdom	25,300	105	69	11	20	58	11	31	20.9	33.5
Spain	24,496	170	82	10	1	73	na	na	1.7	na
Sweden	4,380	100	38	27	18	42	22	20	17.9	21.0

Source: Housing Statistics in the European Union 2005/2006 and Censis 2007

Table 2. Low-income households by tenure and housing financial burden by income level

	% of people living in low-income households		Housing expenditure as % of total household expenditure 2005	
	Ownership	Rent	Total households	Household in the 1st income quintile
Italy	17	30	30	36
France	12	25	26	33
Germany	7	16	30	36
Netherlands	7	20	26	29
United Kingdom	12	32	30	40
Spain	18	23	30	27
Sweden	7	19	30	34

Source: Housing Statistics in the European Union 2005/2006 and Eurostat

Table 3. Main characteristics of the social protection expenditure. 2006

	At-risk-of-poverty rate before social transfers except old-age and survivors benefits (A)	At-risk-of-poverty rate after social transfers (B)	Efficacy of social transfers (A-B)	Social protection expenditure in % of the GDP	Social protection expenditure by function (% of total)	
					Housing	Old age and survivors
Italy	24	20	4	25.7	0.1	60.5
France	26	13	13	29.2	2.7	43.6
Germany	25	15	10	27.6	2.3	44.3
Netherlands	21	10	11	27.5	1.4	41.4
United Kingdom	30	19	11	25.9	5.6	44.7
Spain	24	20	4	20.4	0.8	40.8
Sweden	28	11	17	30.0	1.7	41.3

Source: Eurostat

Table 4. Recipients' characteristics by housing policy tool. Tuscany 2007

	Public Housing (Social rents)	Housing Allowances (Market rents)	Supported Home Ownership
INCOME CHARACTERISTICS			
Average per capita income (euros per year)	6,696	4,491	9,966
Average household income (euros per year)	17,908	11,325	21,730
% Households in the 1st p.c. income deciles	42.0	61.8	16.4
% Households in the 1st and 2nd p.c. income deciles	58.9	77.2	30.3
HOUSEHOLD STRUCTURES			
% Households with at least 1 young child (<18)	12.4	36.2	17.2
% Households with all adult children (>18)	25.6	3.5	9.3
% Households without children	24.0	27.4	5.3
GEOGRAPHIC ORIGIN			
% Householders born in Tuscany	61.1	-	75.0
% Householders born in other Italian regions	31.3	-	22.5
% Householders born in foreign countries	7.6	29.5	2.5
HOUSING CONDITION			
Average per capita floor area (m ²)	25.6	26.6	33.6
Average household floor area (m ²)	67.4	68.0	73.2
Public aid amount (per month)	339	218	133

*For subsidized houses it is the difference between average paid rents and average market rents, for supported houses the lump sum received has been distributed over a 15-year period

Source: own calculation on Tuscany Region data

Table 5. Public housing tenants' characteristics per length of assignment. Tuscany 2007

	Before 1988	From 1988 to 1997	Since 1998	Total
INCOME CHARACTERISTICS				
Average per capita income (euros per year)	7,900	6,942	4,861	6,696
Average household income (euros per year)	20,464	18,198	13,764	17,908
% Households in the 1st and 2nd p.c. income deciles	48.8	58.9	74.7	58.9
% Households from 7th to 10th p.c. income deciles	10.8	8.0	4.2	8.1
INCOME SOURCE				
% Households with only non-self employment income	18.4	32.8	41.5	28.2
% Households with only non-self employment and pension income	62.9	50.8	45.3	55.2
% Households with only self employment income	2.4	3.7	4.2	3.2
HOUSEHOLDS STRUCTURES				
% Households with at least 1 young child (<18)	4.5	11.7	25.2	12.4
% Households with all adult children (>18)	27.3	28.4	21.6	25.6
% Household without children	23.3	20.6	19.6	21.6
% Other households	45.0	39.3	33.7	40.4
GEOGRAPHIC ORIGIN				
% Householders born in Tuscany	62.8	59.8	50.6	58.1
% Householders born in other Italian regions	31.8	33.5	26.7	30.3
% Householders born in foreign countries	5.4	6.7	22.7	11.6
HOUSING CONDITION				
Average per capita floor area (m ²)	29.1	24.1	21.3	25.6
Average household floor area (m ²)	74.2	62.5	59.4	67.4
% Households with 1-2 people living in 90 m ² and larger dwellings	11.2	2.0	1.4	6.7
Average monthly rent (euros)	127	105	76	107
Average Rent/ Income Ratio (%)	7.5	7.0	6.6	7.2
Average monthly public aid *(euros)	319	340	369	339

*It is the difference between average paid rents and average market rents

Source: own calculation using Tuscany Region data

Table 6. Public housing tenants and housing allowance recipients' position with relation to relative poverty line. Tuscany 2007

	Public Housing (Social rents)	Housing Allowances (Market rents)	Total
Poor families reaching the rel. poverty line (A)	37.1	78.3	54.7
Poor families passing the rel. poverty line (B)	21.0	9.5	16.1
Not poor families (C)	41.9	12.2	29.2
Total	100.0	100.0	100.0

Source: own calculation using Tuscany Region data

Table 7. Yearly regional expenditure for public housing and housing allowance with relation to relative poverty line. Tuscany 2007

	Public Housing (Social rents)	Housing Allowances (Market rents)	Total
Million euros			
Poor families reaching the rel. poverty line (A)	75.2	41.0	116.2
Poor families passing the rel. poverty line (B)	9.5	1.6	11.1
Not poor families (C)	53.2	4.8	58.0
Total	137.9	47.5	185.4
%			
Poor families reaching the rel. poverty line (A)	54.5	86.4	62.7
Poor families passing the rel. poverty line (B)	6.9	3.5	6.0
Not poor families (C)	38.6	10.1	31.3
Total	100.0	100.0	100.0

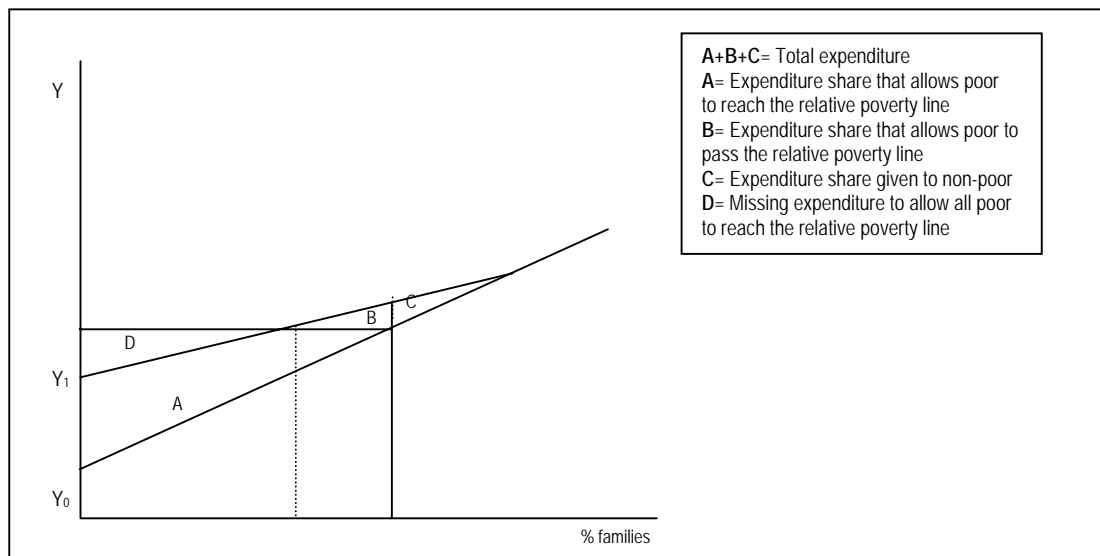
Source: own calculation using Tuscany Region data

Table 8. Target efficiency indicators for public housing and housing allowance. Tuscany 2007

	Public Housing (Social rents)	Housing Allowances (Market rents)	Total
Vertical Expenditure Efficiency (A+B)/(A+B+C)	0.61	0.90	0.69
Horizontal Expenditure Efficiency A/(A+B+C)	0.55	0.86	0.63
Horizontal Expenditure Efficiency A/(A+D)	0.72	0.44	0.59
Spillover Effect (B+C)/(A+B+C)	0.45	0.14	0.37
Poverty Gap Efficiency D/(A+D)	0.28	0.56	0.41

Source: own calculation using Tuscany Region data

Figure 1. Beckerman target efficiency scheme



Source: Toso, 2000

Figure 2. The Conventional Income system and eligibility for public housing. Tuscany 2007

The Conventional Income is the sum of all family yearly taxable incomes.

That total amount benefits from the following allowances:

- 1,550 euros per dependent child;
- 3,099 euros per disabled dependent child;
- 3,099 euros per single parent's dependent child;
- 1,550 euros per family component beyond two (except for dependent children).

After the above-listed allowances, the remaining amount is calculated as 60% of the total, for the quota from non self-employment and pensions.

To be admitted to public housing, the family conventional income must be under the admission income limit fixed yearly by the regional government (in 2007 it was 14,120 euros). The effective dwelling assignment depends on the availability of a suitable apartment. In order for the dwelling assignment to be annulled, the upper income limit must be exceeded for two consecutive years (in 2007 14,120 augmented by 75%, that is 24,710).

Conventional income is also used for monthly rent calculation, as follows:

- from 0 to 5,680 euros: 13 euros per month;
- from 5,680 to 11,340 euros: 7% of taxable income;
- from 11,340 to 14,120 euros: 12% of conventional income;
- from 14,120 to 24,710 euros: 14% of conventional income;
- beyond 24,710 euros: 16% of conventional income.

Source: own elaboration of national and regional laws and rules

Figure 3. The ISEE Income system and eligibility for housing allowances. Tuscany 2007

ISEE Income is composed of the following two parts:

- the sum of all family yearly taxable incomes (- housing rent expenditure, + average return on financial assets);
- 20% of asset value (with provisions for a 15,500-euro allowance for personal estate and 51,650 euros per allowance for owner-occupied houses).

That total amount is divided by an equivalence coefficient, which estimates the burden of different family compositions as follows:

- 1 person: 1
- 2 people: 1.57
- 3 people: 2.04
- 4 people: 2.46
- 5 people: 2.85
- each extra person: + 0.35
- one-parent families with young children: +0.2
- each disabled person: +0.5
- both parents working and young children: +0.2

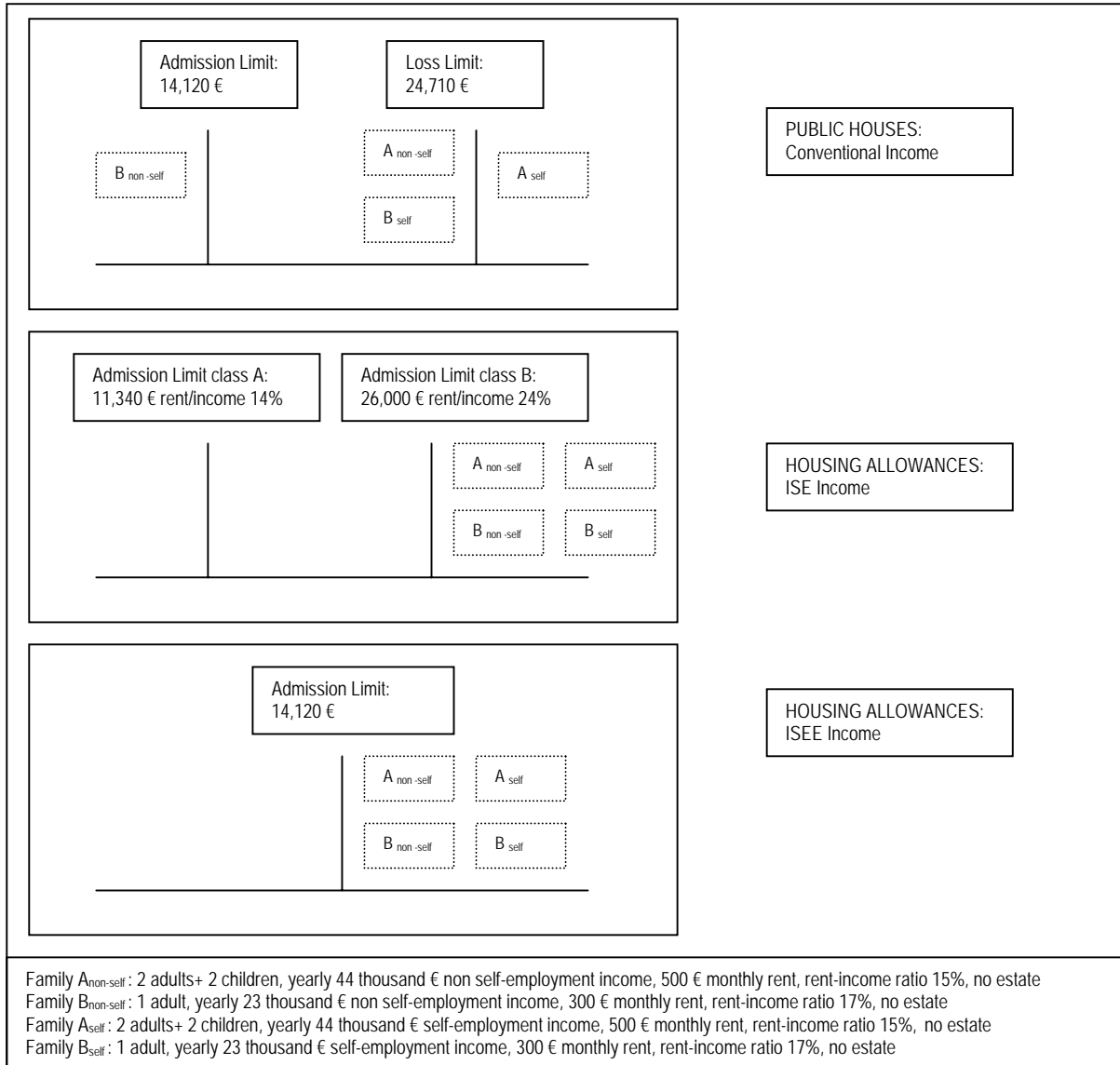
The ISE Income is simply the ISEE Income not divided by the equivalent scale.

The Housing Allowance assignment is decided yearly. The admission requisites are:

- for class A aid (the allowance amount is 3,100 euros per year at most) an ISE Income (ISEE Income before division by equivalence coefficient) under 11,340 euros and a rent-income ratio over 14%;
- for class B aid (the allowance amount is 2,300 euros per year at most) an ISE Income (ISEE Income before division by equivalence coefficient) under 26,000 euros and a rent-income ratio over 24%, or an ISEE Income under 14,120 euros.

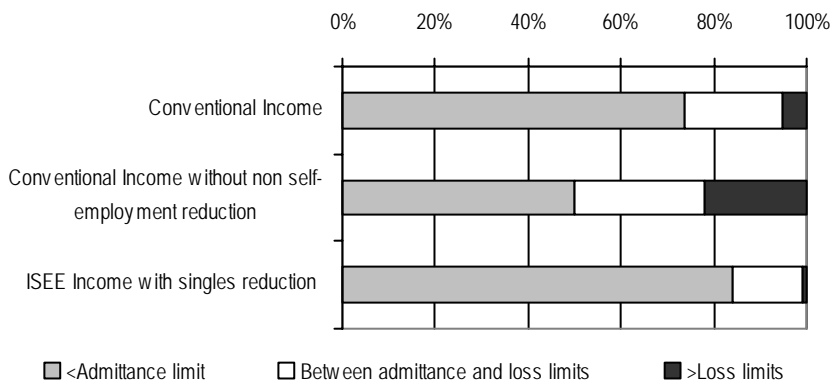
Source: own elaboration of national and regional laws and rules

Figure 4. Eligibility for public aid for 4 different kinds of households



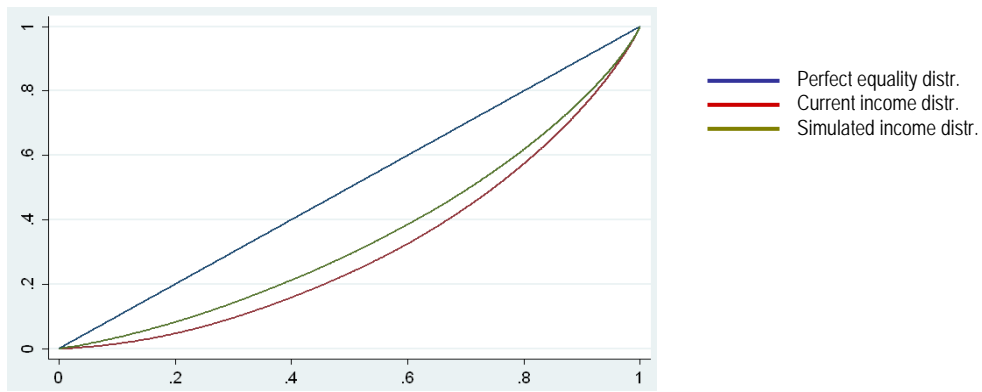
Source: own elaboration of national and regional laws and rules

Figure 5. Eligibility for public aid by applying 3 different income calculation systems. % of current aided households. Tuscany 2007



Source: own calculation using Tuscany Region data

Figure 6. Lorenz curve for current and simulated income distribution of public tenants and housing allowance recipients.



Source: own calculation using Tuscany Region data