

# A German Perspective on Objectives of the Moving to Work Demonstration, Housing Provision, and Targeting

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## Objectives of the Moving to Work Demonstration and its Assessment

The Moving to Work (MTW) program aims to create greater flexibility for participating public housing agencies (PHAs) in the management of their tasks, in particular, by relaxing budgetary and instrumental requirements for the use of housing choice vouchers. The following objectives are set by law for the agencies participating in MTW:

1. Reduce cost and achieve greater cost effectiveness in Federal expenditures;
2. Give incentives to families with children where the head of household is working, seeking work, or is preparing for work by participating in job training, educational programs, or programs that assist people to obtain employment and become economically self-sufficient; and
3. Increase housing choices for low-income families.<sup>1</sup>

These three objectives are not defined by the financing agency, the U.S. Department of Housing and Urban Development (HUD), so it seems rewarding to examine the objectives and their implementation and discuss them from a German perspective. The cost dimension of MTW activities is examined in the contribution by Stacy et al. (this volume); it is primarily measured by the average amount of subsidy funds per household. The authors conclude that MTW agencies can provide the same level of services to the households supported and, at the same time, increase their reserves for housing development and maintenance. According to the authors, no evidence of negative effects on housing quality exists. This finding may indicate an increase in the cost-effectiveness of the MTW agencies. As Stacy et al. (this volume) point out, however, further research is needed to better understand the causalities of the underlying efficiency gains. The

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<sup>1</sup> Omnibus Consolidated Rescissions and Appropriations Act of 1996 (note: 42 USC 1437f).

question arises as to whether the average amount of subsidy funds per household is a suitable indicator of cost-effectiveness, as this indicator tends to measure the intensity of subsidies. To take sufficient account of the effectiveness of MTW activities, it would be helpful to assess whether the MTW objectives are achieved to the same extent with less funding: Is the same level of housing cost relief achieved? Do MTW agencies serve the same types of households with similar supply problems? Is funding provided in comparable housing market segments or locations? It makes a difference whether the average subsidy or the achieved reduction in housing cost is measured. Further, the average subsidy per household served does not reflect the extent of variation between households in the level of benefits—do the households differ greatly in benefits received, or are the benefits similar for all recipient households?

One reason for improved cost-effectiveness could be the increased use of project-based vouchers (PBVs) as opposed to tenant-based vouchers (TBVs), as noted in the contributions of Galvez et al. (this volume) and Galvez, Gourevitch, and Docter (this volume). They conclude that MTW agencies use their resources on PBVs to a greater extent, although typically not even close to the extent allowed. As Galvez et al. (this volume) show, this shift in favor of PBVs also varies within the group of MTW agencies, with a larger share of PBVs being found in particular in contexts of higher rent levels; the importance of local contexts of action and housing market conditions becomes obvious here. It is possible that PBVs linked to specific projects or specific buildings not only imply a more predictable cost development but also enable more efficient administration (compare to the qualitative surveys of Galvez et al. [this volume]). Similarly, a less favorable sociospatial location of housing provision by PBVs could also lead to supposedly better cost-effectiveness. Galvez et al. (this volume) conclude that the housing conditions of PBV households, in terms of renting dwellings in lower-poverty, higher-quality neighborhoods, are worse than those of TBV households, both for the MTW agencies and for the comparison agencies. According to this, PBVs tend to be located in less favorable areas, which may also affect the individual labor market and educational opportunities of the households concerned. This finding would therefore be critical, not only for housing choices but also in terms of self-sufficiency.

In contrast to this, the analysis by Treskon, Gerken, and Galvez (this volume) concludes that the MTW program has a positive impact on housing choices. They examine three dimensions: the amount of housing, the location of housing, and the quality of housing, and they observe an effect with regard to the first dimension. The fundamental question, however, is whether the expansion of subsidized housing—or more precisely of supported households—through more vouchers assigned by the agency, can actually be seen as an increase in housing choice.

The stronger establishment of PBVs could be linked to the perspective that project-based management could be used to achieve a more favorable sociospatial distribution of subsidized housing and thereby increase housing choice. Ultimately, however, it should be noted that PBVs seem to contribute more to the stabilization of sociospatial segregation patterns. In contrast, TBVs seem to enable a higher degree of housing choice by enabling renting housing in a greater number of affordable areas. Nevertheless, the particular financial difficulties in developing or securing affordable housing, especially in tight markets, must be acknowledged; this factor reveals the conflict between cost-effectiveness—in a narrowly defined understanding—and housing

choice. An expansion of housing choices, which opens up housing contexts with more favorable conditions (and thus generally higher price levels), inevitably leads to an increase in expenditure if the level of benefits continues to be linked to a housing cost burden ratio.

On the one hand, the link to the housing cost burden is appropriate to the problem of affordability. In contrast to flat-rate housing allowances, benefits are granted according to individual conditions so that the actual need for support can be met. On the other hand, it can amplify existing inequality. For example, the types of households more likely to be able to lease up in a low-poverty neighborhood with good schools end up getting larger subsidies (assuming that rents are higher in lower-poverty neighborhoods). The trade-off between cost-efficiency and housing choice becomes even starker in the case of MTW agencies because, according to the analyses by Galvez, Gourevitch, and Docter and Stacy et al. in this symposium, these agencies are more often characterized by higher rent levels. The expansion of supported households in the MTW agencies, as noted by Treskon, Gerken, and Galvez (this volume), also points to the greater need for support in these agencies' jurisdictions.

The target dimensions of cost-efficiency, self-sufficiency, and housing choice are in part explicitly and implicitly present in the German housing policy debate, but they are less associated with local administrative flexibility and more strongly linked to the use of basic types of instruments. Thus, different strengths or supply potentials are generally assigned to the so-called subject-oriented and object-oriented (project-based) funding approaches, also described as demand-side and supply-side instruments.<sup>2</sup> Subject-oriented services have been of greater importance in Germany, especially since the early 2000s. In Europe, too, they are used as housing allowances, housing benefits, and other similar designations, with very different instrumental arrangements (OECD, 2019).<sup>3</sup>

Subject-oriented instruments are generally considered to be highly cost-efficient because support services are allocated to the relevant households in a more targeted and needs-based manner (see Gibb and Whitehead, 2007; Griggs and Kemp, 2012; Kemp, 2007; Lux, Sunega, and Boelhower, 2009; Turner and Elsinga, 2005). Despite the fact that this instrument is well-established in policy and well-funded, the need for a more comprehensive social housing sector is acknowledged in Germany and many European countries. This demand is attributed to a lack of affordable housing in central areas, which, with rising rent levels, would mean a financial overload of subject-oriented funding approaches. Moreover, despite the use of subject-oriented instruments, a displacement of low-income households is assumed, which would have to be countered by the expansion of subsidized housing with fixed rents. It should be noted that the term "social housing" is used inconsistently and subsumes a wide variety of phenomena (Hansson and Lundgren, 2018; Whitehead and Scanlon, 2007).

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<sup>2</sup> "Subject-oriented" housing policies for low-income households include tenant-based rental assistance, but also housing assistance for homeowners. Besides such subsidies to steadily reduce housing costs of households (housing allowances), further instruments for homeowners and homebuyers can be relevant; these are subject-oriented subsidies such as credits, grants, guarantees, or taxation to make property possible or financially secure private homes.

<sup>3</sup> A European Union (EU)-wide survey of housing policy instruments is currently being conducted within the framework of the project "Housing Policies in the EU," carried out by the Institute for Housing and Environment and the Technical University of Darmstadt, financed by the German Federal Ministry of the Interior, Building, and Community. The results are expected to be published at the end of 2020.

The PBVs, which are more important for MTW agencies than for comparable agencies, are hybrid in nature. These vouchers reduce the housing costs of households, according to the circumstances of the individual situation, and thus have a clear subject-oriented character. At the same time, this instrument is indirectly used to finance specific properties that are the subject of a contractual agreement between agency and owner. Sometimes the agency is the owner, which could be linked to other funding elements relevant to the estimation of cost-effectiveness. Based on case studies, Galvez et al. (this volume) identify two motives of MTW agencies for using PBVs that are particularly relevant from a supply theory perspective. First, the interviewed MTW agency staff believes that PBVs make it possible to provide housing in market situations where TBVs are less effective due to lower acceptance by landlords. Accordingly, the basic supply for households in need is, from that point of view, only ensured on a project basis. Second, the projects are not limited to the formal-legal provision of housing for a regulated period of time, but contribute to the establishment and strengthening of partnerships. These partnerships, for example, contribute to the provision of particularly urgent care (especially for housing homeless people) and can thus provide an essential added value for the housing supply. In this respect, the benefits of PBVs may turn out to be greater, from a qualitatively detailed perspective, than the defined target triad of cost-efficiency, self-sufficiency, and housing choice suggests. Against this background, the instrumental orientation of housing policy in Germany will be examined later in this report, taking into account the triad of objectives.

## **Instruments of German Housing Policy—Cost-Effectiveness, Self-Sufficiency, and Housing Choices?**

In German housing policy, a distinction is made between tenancy law and the economic forms of object promotion (project-based or supply-side) and subject promotion (demand-side). The social object promotion (*soziale Wohnraumförderung*) refers to the financial promotion of the construction or conversion of housing (“brick-and-mortar-subsidies”). In practice, housing promotion, in contrast to subject promotion, focuses less on broader target groups with financial difficulties and more on persons or households with access difficulties to the housing market (for example, households with a migrant background or many children; ex-prisoners; persons with mental health problems) or housing needs that are not adequately provided by the housing market (for example, age-appropriate and handicapped-accessible housing). Nonetheless, political discussions at the regional level—which is responsible for social housing promotion—often reveal efforts to expand the target group by extending income limits, so that ultimately more and more eligible persons tend to encounter a tendentially decreasing number of social housing units. The instrumental logic of social housing promotion is based on the agreement that, in return for financial loans and grants, the benefiting investor enters into occupancy and rent price commitments. In addition to restricting the rent level of the subsidized housing, it thereby also serves to determine the prioritization of supported households according to urgency by the municipalities (occupancy rights). From the tenant’s point of view, only one limited choice remains. Households that are registered as housing seekers at local authorities can only indicate preferences for the district in which they would like to live. Due to the long waiting list, a housing offer can only be accepted or rejected (which may mean that no social housing dwelling can be rented at all). Furthermore, when

households are allocated social housing units, they are each allocated a standard amount of floor space. Social housing units are all very similar to each other. A central problem of social housing promotion in Germany is the small number of dwellings to be allocated. This circumstance is due in particular to the current large number of expiring agreements. In addition, turnover in the social housing stock is extremely low because the relatively few (compared with the number of eligible) tenants rarely move out. People are not required to move out if their incomes rise to exceed the income limits for the subsidy. To reclaim the subsidy that such households receive, a special levy on over-income households is imposed in some of the *Länder*.<sup>4</sup> This levy does not immediately cancel out the subsidy advantage when the income limits are exceeded, however, and it affects only a part of the subsidy advantage. It can therefore be assumed that this special levy will only marginally compensate for the subsidy expenditure. Against this background, the cost-effectiveness of social housing is often criticized. In this context, the dimension of self-sufficiency in the sense of independence from transfer payments indirectly becomes the subject of the housing policy discussion in Germany. For example, a lack of affordable housing is problematized in economically prosperous regions where the labor market is generally more favorable. In this respect, the expansion of a subsidized stock is increasingly understood as a measure to enable affordable housing for low- and middle-income groups in these market contexts. At the same time, however, it has to be stated that the completion of (subsidized) buildings is too low to make this goal of providing housing for broader target groups realistic. With regard to housing choices, the decisive factor in Germany is that new subsidy contracts are concluded mainly for new buildings in newly developed districts of a city. Expiring subsidy agreements can sometimes be extended, but there is no extensive purchase of occupancy rights in the existing stock. The anchoring of obligatory social housing quotas in planning law for larger new housing developments has led to a spatial expansion of the subsidized stock, although this is still at a relatively low level due to the small number of new buildings.

Subject-based instruments are understood as financial support for households that are unable to obtain sufficient supply on the housing market. Since the early 2000s, Germans have shifted toward this bundle of instruments. The housing allowance (*Wohngeld*), which subsidizes part of the housing costs, is intended to reduce the housing cost burden on low-income households. The housing allowance is a priority social benefit that precedes the basic security scheme.<sup>5</sup> Eligibility and the amount of the benefit depend on the size of the household, the household income, and the eligible rent or housing cost burden in the case of owner-occupied housing. The increase in housing benefit payments in line with the level of rent is intended to induce housing consumption based on demand and to prevent it from being minimized in favor of other goods. The funds are thus indirectly linked to their purpose of improving housing provision. At the same time, the eligible rent is capped by a maximum amount table, so that inappropriate housing consumption is equally

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<sup>4</sup> *Länder* are the regional units in Germany responsible for social housing promotion. They correspond to the states in the United States or to the provinces in Canada.

<sup>5</sup> The social protection system in Germany consists of the basic security scheme and priority benefit systems (in particular, housing allowance). The two systems differ in terms of the scope of the benefit objectives, benefit administration, benefit assessment, and rights and duties of individual households. Households are obliged to prevent their need for basic security benefits by claiming priority benefits such as the housing allowance (compare to Cischinsky and Krapp, 2020).

ineligible.<sup>6</sup> Consequently, the design of this financial incentive system—the decisive factor is the dependence on the level of rent—has a paternalistic tendency to prescribe appropriate housing consumption. Nevertheless, it is a very market-oriented instrument which, by increasing the housing budget, strengthens the demand possibilities and thus theoretically increases housing choice. To take into account the regional differences in rent levels, the housing allowance ceilings are differentiated according to seven defined rent levels, into which individual municipalities are grouped.

The second form of subject-oriented funding is the assumption of costs of accommodation (*Kosten der Unterkunft, KdU*) within the scope of the basic security scheme according to the Social Security Code. With the reorganization of the social benefit systems in 2005, these costs were transferred to the municipal level, although the federal government participates in the financing. Although the housing allowance is designed merely as a subsidy to housing costs and is a social benefit that precedes the basic security scheme, the KdU is intended to ensure that all needs are met to secure the minimum subsistence level. Due to this demanding supply target, which is constitutionally guaranteed as an individual right of entitlement, and the simultaneous heterogeneity of the local housing markets (with different supply and demand structures and different price levels and dynamics), municipalities are in charge of setting the limits of accommodation adequacy. These limits in the form of local cost restrictions are calculated differently in terms of their amount, depending on the size of the household and the different costs of locations (infrastructural-connected locations within individual administrative districts) (compare to Malottki et al., 2017).

Both subject-oriented instruments are attributed a higher cost-efficiency compared with object-oriented funding because a more targeted and needs-based allocation of funding is assumed. At the same time, it must be noted that the levels of support must be constantly adjusted to the development of rents, and that expenditure on subject-oriented services has risen sharply in recent years.<sup>7</sup> Because the subject-oriented instruments increase the ability of households to pay for housing, it is sometimes argued that they contribute to rent increases, but no reliable studies on this exist. The strengthening of self-sufficiency, in the sense of work incentives to avoid benefit payments, is seen as a positive characteristic of housing benefit in particular. In principle, the economic and political discussion assumes that negative work incentives exist when higher incomes lead to lower benefits or a loss of benefits (but compare to Castells [this volume] for the absent impact of increasing the tenant contribution rate). To mitigate this negative incentive, the housing allowance entails low transfer withdrawal rates. If households are able to improve their income situation, the housing benefit is only reduced partially. In the context of KdU, which is more important given the number of benefit recipients, such an incentive to work does not exist. Only a small amount of additional income will not be considered in determining the benefit amount. This circumstance is due to the existence-securing character of this service, which aims to

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<sup>6</sup> The federal government defines the level of services nationwide, whereas the benefits for individual households are administered at the local level. In the past, benefits were only adjusted at irregular intervals (2009, 2016, and 2020) to take account of price increases. This circumstance led to sharp fluctuations in the number of recipients and to the undesirable switching of households between the housing allowance system and the basic security scheme (compare to Cischinsky and Krapp [2020]). From 2022, the housing benefit will be updated automatically (so-called dynamization), on the basis of official price indices of housing costs and general consumer prices.

<sup>7</sup> Expenditure on KdU under the Social Security Code and on housing benefit amounted to a total of approximately €15 billion in 2008. In 2017, despite a tendency toward a decreasing number of supported households, accommodation costs of approximately €18 billion were recognized (compare to German Federal Government, 2019).

meet demand as precisely as possible. This limitation of the benefit is often also understood as an argument for cost-effectiveness.

With regard to housing choice, the subject-oriented benefits are, similar to the TBVs, characterized in principle by openness, which, in the sense of housing choice, allows the rental of different types and different places of accommodation. In view of the capped benefit level, however, renting housing in better locations is difficult even with these instruments.

## **Conclusions**

In summary, it can be said that the MTW agencies may well provide poorer sociospatial services to households supported by the project by using more PBVs than similar agencies, which are typically located in less favorable districts. The MTW agencies, however, tend to be situated in tighter housing market contexts, so that the challenges of housing provision are greater. Securing housing via PBVs—or via social housing, as the German housing promotion scheme aims to do—is essential here to open up real integration opportunities, especially for cases with access difficulties to the housing market. If the use of PBVs leads to the provision of housing for such serious emergencies, and even combines this with further supporting measures, the less favorable locations would certainly be tolerable. The importance of residential locations should, of course, not be disputed. Ultimately, it will depend on local housing allocation practice, and the quality of locally developed partnerships, where and which target group-specific support services are developed. The MTW approach aims to give local agencies greater flexibility in this respect. In the future, however, the question of the sociospatial location of housing provision should be given more attention, and the framework conditions and barriers for the location of PBVs should be investigated. It may be possible that U.S. planning law enables a stronger interlocking of land use zoning on the one hand and social housing provision on the other, as is becoming increasingly important in German municipalities. In Germany, planning law is used in the form of urban development contracts to require a considerable proportion of the planned housing for social housing provision. In some municipalities, this requirement even results in a quota of up to 40 percent of the developed dwellings in larger construction areas, which need a subsidy agreement with corresponding rent and occupancy commitments.

Furthermore, against the background of the special project character of the PBVs, further research is needed on the supported households and their specific supply problems in given market situations. Galvez, Gourevitch, and Docter (this volume) already analyze an extensive catalog of household structure characteristics, including household composition, income, and rent burden. Further information, for example, on the initial housing conditions of the supported households would be useful to better reflect the structure of local supply problems and the quality of support provided by local agencies. Ultimately, this could also enable a more indepth assessment of the work of MTW agencies.



## Author

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