

[Social housing is too subsidised!](#) [1]

Written by [Tim Worstall](#) [2] | Wednesday 4 January 2012

Over at my gaff we've been having a little shout about housing benefit, the idea that, horrors, people might have to make do with less than the annual median wage as a subsidy to their lifestyles (the annual median wage before tax that is: the new caps will still allow above the post-tax annual median wage to be paid in housing benefit). And up in the comments popped someone (presumably a political operative alerted to the monstrous allegations we were making that, you know, perhaps this isn't a Third World standard of living that such subsidies force upon people) who insisted that:

Council rents are not, in any way shape or form, directly or indirectly, subsidised by the tax payer.

Which is really quite remarkable. For we know very well that council (or if you prefer, social) rents are below market rents. The subsidy must be that difference between the two.

We even know how much that subsidy is. At least we have a couple of attempts at quantifying it. The Hills Report told us that the annual cost was some £6.6 billion. The ONS tells us that the market value (ie, the capital value) of below market rate tenancies is some £600 billion.

We tried to point this out a few times but our visitor was having none of it. That there isn't a direct transfer from general taxation to social renters means that there's no subsidy, full stop. Even after the concept of opportunity cost had been explained (repeatedly, in several different forms) it just didn't sink in.

Which leads me to a wish for this coming year. There are really only two things that you have to know about economics. As with, say, the two things about boxing: hit, don't get hit. In economics these are 1) incentives matter and 2) opportunity costs. The first of these we all intuitively grasp, the second sadly vast swathes of the country do not. And the wish is that we get the education system sufficiently sorted out so that every child does indeed understand this vital idea.

For those of you who haven't got it, it is this. Because we are not charging market rents for social housing there is some money left on the table there. It might be that £6.6 billion. This is thus £6.6 billion of government money that cannot be spent on something else: teaching children economics say. It might be that £600 billion as a capital value: if we were able to sell all of that off at true market prices then we'd have three times over the £200 billion we need to invest in renewables according to DECC.

That we are doing one thing with the resources at our command means that we cannot be doing something else with those same resources. The opportunity cost of lower than market rents is not teaching children economics, not having money to spare to build a renewables system.

Please note, for those who still do not understand. This does not mean that lower than market rents is a bad idea. / think it's a bad idea, true, but that's a very different thing. All that opportunity cost means is that lower than market rents are indeed a subsidy, the cost of that subsidy being what we cannot do with the resources we've allocated in that manner. Maybe the cost is worth it, maybe it isn't: but we do have to start by acknowledging the cost and then comparing it to what else we could be doing with that money.

Just as an example. There's a recent report that says that the UK needs £5 billion a year investment in renewables. We have Hills telling us that we lose, by not charging market rents, £6 billion and change a year. Imagine that was the only money we had.

Maybe below market rents is a better use of the money than renewables. Maybe it isn't. But I do, as does every economist across the land, insist that as we cannot have both plumping for one means that the cost of having that one is the loss of not having the other.

So yes Virginia, social rents are subsidised. And the cost of the subsidy is all the other things we cannot do with that £6.6 billion (or £600 billion). And if every schoolchild in the land understood that then not only would there be fewer confused commenters on my blog but politics, which is after all the allocation of our tax money, would be immeasurably more efficient.

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