

A just distribution of housing or just a just distribution?#

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Abstract: A Just Distribution of Housing or Just a Just Distribution?
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An eternal question in applied welfare research is whether the policy response to unmet need at one arena should be met with in-kind support on that specific arena or whether general transfers of income is more efficient. Of course this question is even more pressing for policy designers.

Still, the most elegant formulation of the dilemma this question contains dates back to Tobin (1972): *While concerned laymen who observe people with shabby housing or too little to eat instinctively want to provide them with decent housing and adequate food, economists instinctively want to provide them with more cash income. Then they can buy the housing and food if they want to, and if they choose not to, the presumption is that they have a better use for the money.*

In this paper I discuss the arguments for and against in-kind transfers as an element of the welfare policy. More specifically I try to identify conditions under which in-kind transfer can be efficient even if distributional concerns are the main argument for interventions. As for Tobin the point of departure of the discussions in the paper is the results from neoclassical welfare economics. Throughout the paper housing is used as an example of an in-kind based welfare policy.

1. Introduction

The ambition of this paper is to confront the practise of using in-kind or commodity specific transfers in the welfare policy with the claim of welfare economics that general cash transfers are the superior instrument for achieving distributional ambitions. One can say that the paper is a contribution to the discussions of whether there is considerable scope for improving the efficiency of the distributional policy by down-sizing the amount of good-specific transfers in favour of more general cash-transfers, or whether the trained instincts of most economists (Tobin, 1970) should be dismissed or refined. More specifically I will use economic arguments to discuss the housing policy at a quite general level.

Rather than posing the question, what mistakes has been done in the design of the policy the paper asks: under which conditions does the politically chosen set of instrument make sense. If, and only if, such conditions are not fulfilled one should criticise the design of the actual policy. Hence, the paper discusses important components in possible sets of necessary conditions which must be fulfilled for in-kind transfers (or good-specific subsidies) to form a part of a well designed redistributive policy. It does not proceed into identification of sufficient conditions.

Among instruments frequently used in the housing policy one can mention housing allowances, allocation of below market rent rental housing, targeted loans etc.(either subsidised or non-subsidised), etc. As Quigley (1999) formulates it: .. *an alphabet soup of housing programs have arisen in industrialised countries*, p. 202. There also exist other types of legal or regulatory instruments aimed at affecting the distribution of housing. In the rest of the paper the terms: programs, housing policy instruments and housing market interventions, will be used as short forms for housing policy. The theme of the paper is the existence of housing market interventions motivated by distributional concerns, and the paper will only to a very small degree discuss the exact design of interventions and the choices between instruments.

One of the main arguments for housing market interventions is that one wants to provide better housing conditions for those who are badly housed in general or for some specific groups. Hence, many programs and instruments in the housing policy have an explicit ambition to affect the distribution of housing. Numerous white papers on housing policy in

Norway have defined ‘a more even distribution of housing than the general distribution of income’¹ as one of the goals of the housing policy. Similar formulations can be found in housing policy documents also in many other countries. It makes sense to classify this as an example of what Tobin (1970) calls specific egalitarianism.

The second theorem of welfare economics shows that (in convex economies) a cash-transfer can increase the wellbeing of the receiver at least as strongly as an in-kind transfer provided at an equal cost. The argument is both convincing and simple: if, say, housing of a market value z is given to an agent she can never be worse off if she is given the same money amount as a cash-transfer. If housing is the best way to enhance her wellbeing, she will buy the housing. If, on the other hand, her wellbeing is more improved by spending money on other goods and services, a cash-transfer enables her to do it. Reliance on cash transfers can, consequently, also be viewed as an expression of respect of the receivers and their preferences. Furthermore, the informational requirements of a cash transfer regime are also smaller than the information required for a well-designed efficient in-kind regime. Assume that a (benevolent) planner should design a scheme of transfers that moves the distribution of welfare or utility towards a societal desired distribution. Using transfers of specific goods in the design of such a scheme, the planner needs information on relative preferences over goods and services, of the receivers. A scheme of cash-transfers does not need this kind of information – it relies on an assumption that people know what they prefer and act accordingly. These arguments form the basis of the instincts of *most trained economists*.

The structure of the paper is that we in the next section discuss a number of efficiency arguments for welfare enhancing interventions in the housing market. Section 3 introduces and confronts the concepts of global and local justice with each other. Different classes of mechanisms and arguments for in-kind transfers as a part of societies strive to achieve distributional ambitions are given in the sections 4-7. These are intra-household distributions, (labour market) disincentives, the possibility to maintain support for redistributive policies and difficulties in identification of the target groups for the redistributive policy. Section 8 gives some concluding remarks.

¹ This would of course always be accomplished if the Engel elasticity of housing is below unity. Maybe the spirit of the White papers is better captured if we interpret the phrase as: a more even distribution of housing than the distribution produced in the market – given the unequal distribution of income.

2. Efficiency arguments for housing market interventions

This paper is concerned with the instruments and programs of the housing policy as a part of the policy of general welfare and distribution. Before moving closer into the distributional aspects some other aspects of housing policy, related to the efficiency of a housing market in the absence of public interventions, should be briefly touched upon. I mention them partly because they shed light on an important part of the totality in which the distributional aspects of housing policy is embedded. The main reason for treating some efficiency arguments is, however, to avoid confusing arguments for intervention to reduce negative effects of market failure and for housing as a part in societies strive to obtain a satisfying distribution of wellbeing.

An informative and non-formal discussion of non-distributional aspects of the housing policy is given by Quigley (1999). The two prime classes of arguments here are the existence of externalities (both positive and negative) and lack of information. The latter argument is based on the fact that housing is a very complex good, both in a technical and in other senses. Most of us have not the knowledge and competence to make informed choices of the technical aspects of housing characteristics. Furthermore it would be inefficient for all of us to spend time and other resources in a strive to acquire this kind of knowledge. The political response to this has been introduction of certain standards on for example pre-accepted building solutions, building materials and fire-safety. Some argue that such standards and requirements are inefficient interventions in the workings of a competitive market and that it hampers the consumers' possibilities to put together an optimal combination of security, durability, potatoes and other goods and services. Quigley notes that one hardly ever (or maybe even never) hears claims that anyone, educated or not, should be allowed to offer medical services for sale and let the market forces drive out substandard services. Governmentally supervised licensing of medical staff is universally accepted. Hence, the technical aspects of housing are, in Quigley's – and my - view, sufficient complex to institute an argument for governmental standards and requirements to be part of the housing policy.

Some of the decisions of homeowners have an effect on not only themselves both also on neighbours and other community members. When these effects are not traded in a market we term them externalities. In short, when the advantages of a decision are shared by more than those who bear the costs, we talk about positive externalities and we expect under-investment

to be the result of uncoordinated atomistic decisions. For negative externalities it is the other way around. In the presence of negative externalities one would expect over-provision. Some typical examples help illuminate this argument:

Large parts of the active housing policy of the Nordic countries origin from discussions and reports from Sweden in the 1930ies. Even if the word externalities was not used (nor its Swedish equivalent), it is striking to see how externality argument was a part of the arguments. Myrdal and Åhrén (1933). p.59 for example writes about the need to stimulate, or even force, people to choose a higher housing quality than they would otherwise have done. An important argument for Myrdal and Åhrén were that housing quality was an efficient tool in the combat of contamination risks. They emphasised reduction of the incidence of crowdedness as a way to fight the spread of tuberculosis. Of course we are interested in other types of externalities nowadays, but still externalities are important arguments for intervention into the housing market.

Inner city renewal programmes can be, and are, interpreted differently. They can be viewed as targeted interventions done in order to improve the housing situation of residents of under-standard dwellings. However, not infrequently inner city residents are negative to such programmes as the programmes not only reduce the incident of substandard housing, but also reduce the incident of low-price housing. Alternatively, inner city renewal programmes can be viewed as an effort to improve the living environment of neighbouring residents and other people using the areas. Hence, when low quality of some housing units in an area reduces the well-being of others we have a classical example where actions of one owner of a substandard building might give rise to positive externalities. Both the owners of the substandard units and some others gain from rehabilitation. If the costs are carried by the owners alone it is probable that some societal gainful rehabilitation do not take place. Inner city renewal programmes that subsidises rehabilitation of privately owned substandard housing units can consequently be seen as a way to correct market outcomes for positive externalities.²

As described in Quigley (1999), the arguments above on inner city renewal programmes can be extended to cover other types of regulations of property owners' right to exercise their property rights. My decisions of what to do with my house shape the neighbourhood of quite a

² Note that this can be told both as a story of substandard as a negative externality in the neighbourhood and as a story of rehabilitation creating positive externalities in the neighbourhood.

few others also. Part of the zoning regulations in US housing markets can be understood in this way.

Public funding and provision of public goods can also be regarded as a kind of intervention in the housing market. A pure public good is a good where one person's consumption does not reduce the consumption possibilities of others, radio channels, provision and regulation of transport systems and other amenities can serve as examples which also relates closely to housing. In a market with atomistic uncoordinated action the production of such public goods will be suboptimal or even zero, see Olson (1965). Market failures due to existence of public goods can be addressed by interventions in the form of tax-financed public production. This can be viewed as a kind of coordination device. Even if parks and other public amenities can be viewed as something else than housing, the presence of them is part of the bundle of characteristics that determines the desirability of a housing unit. Access to such amenities is frequently found to contribute positively to house prices in hedonic price studies, see for example Arguea and Hsiao (2000) and Wilhelmsson (2002). Note also that the urban renewal example above also can be interpreted as a kind of public good argument.

3. Paternalism, global and local justice

The discussions and arguments of this paper are only relevant if there, at a societal level, exists distributional ambitions; i.e. if the distribution of well-being among citizens, in the absence of interventions, is regarded as unattractive. Even if there is consensus on the importance of distributional ambitions and on the desirability of increased equality there is still considerable scope for disagreement on the exact form of redistribution to take place. In this section I will discuss some of sources of such disagreement.

When treating the topics as distribution, redistribution and equality the trained economist instinctively think about experienced subjective well-being, represented by utility. This instinctive thought is not always made explicit and this can cause misunderstandings. Others think about distribution of income or access to especially important goods and services, when talking about distributional topics. For example: some argue that housing is a merit good and that housing consumption consequently should be supported. This is clearly not a satisfying argument; if the argument should carry any merit it should explain why housing is merit good.

As a matter of fact; once the explanation why housing is a merit good is provided, the term *merit good* becomes redundant.

Note here that when neoclassical welfare economists are spokes(wo)men for use of cash transfers as the superior instrument for obtaining distributional ambitions it is not based on an interest in the income distribution per se. The ambitions is to obtain a preferable distribution of subjective well-being (represented by utility) and a demonstration that cash transfers is, within some limits discussed in the remainder of the paper, the most efficient way to achieve the distributional goals.

The (neoclassical) welfare economists' view is nicely illustrated by Tobin (1972): *While concerned laymen who observe people with shabby housing or too little to eat instinctively want to provide them with decent housing and adequate food, economists instinctively want to provide them with more cash income. Then they can buy the housing and food if they want to, and if they choose not to, the presumption is that they have a better use for the money*, p 264. Hence, egalitarian economists are general egalitarians.

It is tempting to quote another of Tobin's remarks: To the extent that economists are egalitarians at all, they are general egalitarians. General egalitarianism relates to the concept of global justice, while specific egalitarianism relate to local justice. In her book on Distributional Justice, the economist Hilde Bojer starts out with a few remarks on the distinction between local and global justice. After this she goes on stating that: *The theories of justice presented in this book are all global in nature*, Bojer (2003) p.8.

The arguments for the general egalitarian position rely on respect of preferences – and on the conviction that scarcity in one arena can be compensated at another arena. Proponents of specific egalitarianism hold some goods as so essential that interventions should ensure that these essentials should be (more) equally distributed. Examples of such goods mentioned by Elster (1992) are organs for transplants, other medical treatment and admission to education.³ A supply of food sufficient for survival could be another example.

³ Elster also treats allocation of civil rights and obligations (or exemptions from such obligations) as goods allocated by principles of local justice. As my focus is on housing and civil rights and duties are qualitatively very different from housing I will not discuss them.

The general egalitarian would respond to these arguments by saying that to argue for specific egalitarianism in the distribution of a particular good, it does not suffice to argue that this good is very important and essential for everyone. In addition one must argue that it is not feasible to attain an allocation that by the involved agents is regarded as at least as good as the allocation where the particular good is allocated in accordance with the preferences of the particular egalitarian – at the same or a lower cost. It is an open question whether housing in western societies can be claimed to be such an essential.

Interventions made to make the distribution of some specific good more equal (just) than the outcome produced by exchange in the market place are tools in a strive to achieve what Elster (1992) calls local justice. The policy instruments applied in order to contribute towards local justice are typically good-specific subsidies, in-kind transfers, or administrative allocation rules combined with restrictions on post-allocation exchange.

Most people agree that housing is an important good that works as a framework for a multitude of aspects of our lives and a basis for our participation at other arenas such as school and work life etc. Some would proceed from that observation saying that shabby housing should be replaced by decent housing – no matter how the recipients would have chosen. This is a kind of (positive) paternalism and is closely related to the concept of merit goods.

Paternalistic arguments for housing sometimes take a somewhat weaker form. Consider an agent whose level of welfare is below a societal satisfying level: Assume that a public agency has reason to believe that a money transfer would be used for some kind of undesirable consumption, for example cars, alcohol or other drugs. In order to avoid this, an in-kind transfer of housing can be a suitable instrument because the possibilities for resale can be prevented. Hence, this is a kind of paternalism where the society does not put merit to certain types of consumption, but rather dismerit certain types of consumption. This can be termed a kind of negative paternalism. For some people it is probably easier to accept negative paternalism than its positive counterpart. One might even avoid the concept of paternalism by saying that general transfers might give rise to consumption with large negative externalities.

Consider a specific egalitarian that sympathetically listens to the arguments of compensation of well-being between different arenas and choice as a revelation of preferences – and still

holds that some goods (for example housing) should be allocated more evenly than the outcome of exchange under a suitable money transfer. Hence, a pure disagreement on the principal foundations of normative judgements of distributional outcomes is revealed. This is of course a possible situation, both logically and empirically. Note, however, that in such a situation the discussions of this paper become irrelevant. It should be clear from the discussions above that the author discusses specific egalitarianism from a general egalitarian view. This can (or does) of course bias the discussion.

The remainder of the paper discusses how, under certain constraints, the tools of specific (housing) egalitarianism can usefully be employed in a general egalitarian policy. I.e. does there exist situations where the tools of specific egalitarianism in-kind transfers and subsidies to consumption of specific goods, form a part of an optimally designed strive for general equality, even in the absence of positive externalities. The discussion of these constraints will demonstrate that there is no necessary connection between a social preference for in-kind transfers, housing subsidies and paternalism.

4. Intra-household distribution

Any text book in housing economics starts by stating that housing is a complex and in many regards a special good. An implication of this is that the simplest versions of the tools of the competitive markets theory is not immediately applicable for applied housing market analysis. One feature of housing that, however, hardly gets any attention is the fact that even if it is mostly regarded as a private good, at one level it can be regarded as a public good. By this I mean that it is consumed jointly by a group of one or more persons, or in more normal language housing is consumed by households.

Households, or families, are economic units. By money transfers to households a desired degree of equality between households can be obtained. If the distributional ambitions of the society stop at the door step, or if one assumes that economic resources are distributed in a desirable way between household members, there are no arguments for housing to play a special role in the distributional policy. If this is not the case there might be arguments for housing specific interventions as a part of policy to reach distributional ambitions.

The argument is that the form of transfers might affect the intra-household distribution of resources. Assume for example that a distributional agency suspects that general money transfers to some families benefit some household members more than others. As adults normally are the decision makers of families, this can be related to the adults' consumption of cars or other items highly valued by (some of) the adults in the family. Typically this can be concerned with the living conditions and well-being of children, i.e. in-kind transfers of housing can be used in a distributional policy aiming at improving the level of living conditions of children. A concern for the living conditions of children is not in itself a sufficient argument for use of in-kind transfers of housing. In addition one must have a strong suspicion that the well-being of children is not given a sufficiently high priority within the family.

Interestingly enough, in a book published more than 70 years ago Myrdal and Åhrén (1933) argue that failure of parents to take children's interests into account when making housing market choices forms an argument for public interference in the housing market. Children's health is vulnerable to bad qualities in housing such as incidence of dampness, insufficient circulation of air and crowdedness. Myrdal and Åhrén argued that in Sweden in the 30ies parents didn't take account of this. One possible explanation for this neglect might have been lack of knowledge.

Here housing specific transfers have been discussed as a device to improve upon a possible dissatisfying distribution within households. Of course also other goods and services can be used for such purposes. Health care and (heavily) subsidised child care services are just two possible examples of this.

5. Redistributive schemes and disincentives

In theory one can imagine a redistributive system based on individuals' (or households') capacity to earn income, or as it is sometimes termed: full income. Such a system would allocate lump-sum transfers to some agents and lump-sum taxes to others. A nice feature of a system like that is that it would not distort price signals in the economy. The capacity to earn income is, however, not observable. In practice one has to rely on some (non-perfect) correlates of earnings capacity, typically the actual observable income is used. Redistribution based on observable income comes at a cost. In economic terms: compensation for a low

income reduces the net return on effort to increase the income. In other words withdrawal of support as income increases act as a kind of tax and depresses the post-tax return of effort – i.e. it reduces the supply of labour. Consumption is tilted towards leisure.⁴ Hence, the effects of disincentives impose a constraint on the amount of redistribution that can take place.

Consequently, there will be a trade-off between total production in an economy and the level of redistribution. This of course constrains the extent of redistribution that can take place. A somewhat similar mechanism relevant in a discussion of the scope for redistributive interventions based on observable income measures is identified and analysed by Bergh (2005). Not only does a redistributive system affect the total production in a society it would also affect the income distribution net of transfers and the taxes used to finance the transfers. Bergh uses the concept pre-fisc distribution for this distribution. Furthermore, Bergh (2005) demonstrates that it is not obvious how the existence of a redistributive system affects the distribution net of taxes and transfers. It is obvious that repercussions like this might constrain the set of possible redistributive outcomes.

For the purposes of this paper, the next question to be addressed is whether the constraints associated with the disincentives created by income tested general transfers can be eased by using in-kind transfers (or good-specific subsidies) as instruments in the distributional policy. Under what circumstances could in-kind transfers or subsidies contribute to distributional goals and at the same time provide less depressing effects on the aggregate supply of labour. Is it possible that some kind of housing support fulfils the criteria for efficient in-kind support?

Different in-kind programmes, and their interaction, are analysed by Murray (1991). He shows that the implied marginal tax-rates implied within a system that withdraws in-kind support (for example housing) as income increases are lower than in an equivalent money-transfer regime. Hence the disincentive effect of an in-kind housing support is clearly less than the disincentive effect of a programme containing the same amount of money which is given in straight cash.

⁴ Implicit taxes on income through a means-tested income support yields a reduced price on leisure which reduces labour supply through a substitution effect. In principle it is possible that this is completely offset by a negative income effect on the demand for leisure time. This is however depending of the design of the complete support schemes and how it affects total (potential) income. It is most unlikely that a negative income effect can offset the substitution effect.

However, this observation is not really an argument for in-kind transfers. The reason that in-kind transfers yield lower effective marginal tax-rates is simply that they are valued lower than cash transfers by the receivers – and this is exactly the reason why we have argued that in-kind transfers and good specific subsidies are an inefficient way to redistribute. Following Murray (1991) and Nordvik and Åhren (2005), we can say that given that housing for some reason are supported in-kind, the efficiency loss of this policy is reduced because the implied effective marginal tax rates are depressed because the support that is withdrawn . This reduces the deadweight-loss of the support.

The disincentive effect of redistributational measures arises because they reduce the return on labour market participation, and consequently also reduces the (shadow) price of leisure time. From the theory of optimal taxation (see Atkinson and Stiglitz, 1980) we know that in a multi-good context a tax- and subsidy-scheme that minimizes the distortions have desirable properties. I.e. given that true lump-sum transfers are not a part of the set of available instruments, one should choose the set of tax and subsidy rates the mimics the effects of a set of lump-sum taxes most closely. Partially this can be utilised in the design of a redistributational scheme where also some in-kind support or subsidies are utilised.

As an example: consider one good that is a strong substitute for leisure in consumption⁵. Reducing the price through subsidies, or increasing consumption through in-kind transfers, of this good will partially yield a reduction the demand for leisure. If it can be argued that housing is so strong a substitute for leisure that use of housing support does not reduce the labour supply, and that most other instruments in the distributional policy do have adverse effects on labour supply, there is a strong argument for housing support. One case where this is the case is briefly outlined below:

Assume that some kind of housing support enables household to escape a societal indecent housing situation and pass the threshold of access to decent owner-occupation. Furthermore, assume that the support covers only a part of the extra expenses the change of housing has induced upon the household. Hence the household chooses to increase the amount of money spent on housing by more than the sum of pre-support consumption and the money value of

⁵ The exact meaning of strong substitute should in this context be the topic of more thorough (formal) analysis than what is given here.

the support. In this case households with a weak economic position are helped out without depressing the labour supply. At the same time the distortions of the consumption vector might be non-significant.

6. Legitimacy as a constraint for redistributive efforts

Not infrequently it is said that in general money transfers are superior to in-kind-transfers. However, the general public opinion does not acknowledge this – general money transfers to the needy lacks political legitimacy, it violates the preferences of the tax-payers. Support to consumption of basic merit goods on the other hand is expected to get support and be regarded as legitimate use of public resources. Food and housing, especially for children, are two goods that satisfy these criteria. The arguments are backed by Tobins description of the reactions of the concerned layman. Hence in order to accomplish a desired degree of redistribution one has to rely on some variety of in-kind transfers or good-specific subsidies, such as housing allowances etc. These types of arguments are used in support of housing assistance as for example housing allowances. Obviously this is arguments that acknowledge what earlier in the paper has been termed the arguments of the general egalitarians. Somehow the arguments of the general egalitarian are acknowledged, but one goes around them.

In the field of housing, transfers related to housing expenses or vouchers, as opposed to pure cash transfers, has been discussed in relation to housing allowances. Gibb (1995) quotes the preferences of taxpayers as an argument for housing allowances. Taxpayers might be more positive attitude towards transfers targeted towards housing as a necessity, than towards general transfers that can be misused⁶. However, Gibb (1995) mention this as a mechanism to take into consideration when designing a system of transfers. It should be noted that he does not indicate that he shares the view that housing transfers is preferable to general income transfers.

The arguments of Gibb (1995) are extended by Hills (2001). He reports that hardly anyone in surveys wants less spending on specific social benefits, even if these spending must be funded by increased taxes. The *British Social Attitudes* survey from 1998 revealed that people clearly

⁶ Whatever misuse might be in this context.

were less supportive towards increased money transfers for unemployed than they were towards specific support to consumption of social benefits, such as housing.

If it is true that general transfers are not accepted by most people (i.e. the concerned laymen) while specific egalitarianism command widespread support, what should the economist who is concerned about distribution do? Should the trained economist accept this legitimacy-constraint and give support to some second-best policy, or should she take it as her task to reveal the inefficiency embedded within the argument? My answer is in the spirit of Winnie the Pooh: we should pursue both these two strategies.

7. Identification of needy recipients – self-selection devices

As argued earlier in the paper income capacity is not observable, many of the other possible criteria may also be subject to strategic behaviour. A redistributive policy consequently faces the problem of distinguishing between the needy and others. Hence, the theoretical arguments of the superiority of lump-sum transfers as a device in attempts to attain a societal desirable distribution, have limited applicability. Redistributive schemes can generate strategic behavioural responses that both can reduce total labour supply and lead to inefficient targeting of public funds. In a fascinating article Donaldson and Blackorby (1988) shows how a scheme of in-kind transfers can be designed so that the needy, and only the needy, are self-selected into the scheme.

Assume that there exist two (groups of) consumers who we name N and U. They differ in how they value one specific good; U values it higher than N does⁷. The redistributive agency wants to redistribute in favour of U. However, the agency can not identify who is U and who is N directly, it only know that U and N (or Us and Ns) exist. This means that in the presence of a redistributive system which transfers cash-income N (as well as U) have an incentive to signal that she is U. She might even be willing to spend resources in order to be taken as U. Somewhat this resembles that situation discussed earlier in the paper where a redistributive scheme produces disincentives.

⁷ The phrase 'U values it higher than N does' is not very precise. It can be interpreted as U is, at the margin, willing to sacrifice more of other goods in order to obtain one unit of the specific good in question than N is. I will utilise the value as also a concept which covers also global comparisons of finite amounts of goods.

Let w be the quantity of the ‘specific good’ mentioned above and y the quantity of a composite of other goods. Start out assuming that a central planner can offer different combinations of these two goods to consumers. The problem for the planner is how to choose a set of consumption pairs that both satisfies the budget constraint and contributes towards the distributional ambitions. For simplicity we follow Donaldson and Blackorby (1988) and assume that N does not get any utility from w at all. In order to separate U and N the offered combinations (w, y^N) and $(0, y^U)$ must satisfy two self-selection constraints:

- (1) Consumer U must prefer $(0, y^U)$ to (w, y^N)
- (2) Consumer N must prefer (w, y^N) to $(0, y^U)$

We first note that for allocation of w to play any role there must be constraints on resale and exchange of w . If there are no such constraints both consumers would choose the same pair of goods. Secondly, for condition (2) to be satisfied $y^U \geq y^N$, this means that N has nothing to gain from acting as U .

We assume that that w and y are measured in units the cost of producing one unit of w is the same as the cost of producing y and normalise so that this cost equals unity. Furthermore we assume constant returns of scale in both production processes. Hence, the marginal cost of producing both w and y equals unity. If the utility of N is to be increased from the level where constraint (1) is binding, this can only be done by increasing w . It is even possible to increase the utility of N by providing more w than he would have chosen under a free choice given his budget. This is possible because this enables a central planner to increase the welfare of N without providing incentives for U to pretend to be N . Blackorby and Donaldson (1988) term these optima second best optima.

The merits of an efficient self-selection scheme are twofold. If feasible, such schemes facilitate a more efficient redistributive policy which discriminates well between needy (U) and not needy (N) recipients. Furthermore, it can reduce the efforts and resources necessary to put into operating efficient allocation routines.

Here I have tried to spell out the intuition on how self-selection devices can be used to obtain desired redistributions. For a more thorough analysis with derivations and proofs see Donaldson and Blackorby (1988). Later on, the analysis of Donaldson and Blackorby (1988)

have been refined and extended. Singh and Thomas (2000) show that self-selection devices can be used for redistributive purposes also when there exists a continuum of consumers who are distributed along a continuum of valuations of w . Anderberg (2001) demonstrate that, under quite reasonable conditions, in-kind transfers are a part of an optimal social insurance system. In short, these generalisations provide arguments for the relevance of the mechanisms studied by Donaldson and Blackorby (1988).

The purpose of the analysis in this section is to demonstrate that there can exist situations where provision of in-kind services extends the set of possible distributional outcomes feasible to reach in a redistributive scheme. The importance of this result is nicely spelled out by Donaldson and Blackorby (1988:692) when they write that: *Thus, accusations of paternalism against those who favor rationed social provision of goods like medical care may be misplaced*, p.692. It is often claimed that public housing have an inferior standard. Using the argument of self-selection devices one can think that this is a way to utilise informational constraints on the redistributive possibilities. A policy prescription could then be to ensure that the public units have such a low quality that only the truly need will move in, and then subsidise the public housing units.⁸

8. Concluding remarks

This paper is an attempt to confront two seemingly contradictory facts. Firstly; traditional (neoclassical) welfare economics endows us with strong and convincing arguments for the superiority of general money transfers as opposed to in-kind provisions or subsidies as means in the strive for more equality in the society. And secondly; in the world around us we observe a multitude of subsidies and in-kind schemes used for distributional purposes, in housing as well as in other sectors.

Through the paper we argue that it is possible to accept the general egalitarian approach underlying the economic arguments for general transfers and at the same time see the schemes of in kind transfers as a sensible policy choice. Hence, the political choices of instruments in

⁸ This is more an example of how one can argue within this type of models, than it is a well-founded policy advice.

the social housing policy, observed are not necessarily inconsistent with the general egalitarianism.

One final remark of caution is necessary. The paper demonstrates that there exist arguments for specific support, for example in the field of housing. It does not demonstrate that housing support should be a part of a policy targeted towards redistribution. Furthermore, the paper could and should not be interpreted as a support to any kind of in-kind schemes used in the housing policy, or in other parts field of welfare and redistribution. I would say the arguments of the paper should rather be regarded as a set of tools which can be applied in analysis and evaluation of specific schemes of subsidies and in-kind-support.

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