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Housing policy toward the rental sector in Italy:
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Abstract

We study the distributive effects on Italian households of the three most relevant housing subsidies targeted to renters: a national rent supplement scheme introduced in the context of the reform that liberalised the rental market in the late 1990s, a tax credit for renters that has been recently strengthened, and the implicit economic support given to tenants in the social housing sector, through below-market rents. The analysis is performed on data from the Eu-Silc survey for Italy and, in the case of the housing allowances, also on register data from some of the largest Italian towns. We consider in particular the ability of these schemes to target low income households and their effects on the overall levels of poverty and inequality. Results from our analysis show a good targeting but very limited effect on social protection, with the partial exception of social housing.

Keywords: housing policy, housing benefits, social housing, tax credit, poverty, Italy.
JEL codes: I38, R2, I32.

Introduction

Although Italy's home ownership rate is among the highest in the European countries, the rented sector still accounts for about 20% of the housing stock occupied as a main residence. Social housing has a marginal role, comprising about one fifth of rented dwellings. The incidence of the whole rental sector has halved during the last fourty years (D'Alessio & Gambacorta, 2007). Private supply of rental homes fell dramatically after a law regulating rent levels was introduced in 1978. To some extent, many households have been forced to become home owners as a way to get a secure and affordable dwelling. The rent control regime, largely ineffective in both protecting tenants and in allowing reasonable returns to landlords, was progressively dismantled during the 1990s, when the rental market had already collapsed. The private rental sector was then gradually liberalized through a voluntary rent-bargaining system, and with the survival of some general rules on tenants' protection that enable the current regime to be inserted within the broad range of "second-generation" or "soft" rent control systems (Arnott, 1998).

Over the last decade, the share of households living in rented homes has remained stable. However, their economic conditions have worsened, both in absolute terms and in comparison with those of homeowners, in consequence of two simultaneous long-term trends: firstly, from 1998 to 2007 housing prices and rents substantially increased (Rondinelli & Veronese, 2010) and have not returned to past levels, owing to the ongoing crisis; secondly, disposable incomes of Italian households have been increasing very slowly at least since the mid-1990s. Those who could afford to buy their homes have already made the leap from renting to owning, benefiting

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also from a prolonged period of low interest rates, so that the condition of renters is now much more closely associated with the presence of a low disposable income than thirty years ago.
Since the increase in house prices and rent levels has been much faster than the income growth, many households still living in rented dwellings do not possess enough resources to purchase a house. The demand for rents is also fuelled by robust immigration flows, both from southern regions towards the North and from abroad. However, the supply of dwellings for rent is limited, for a series of reasons, most relevantly by the shortage of new social housing iniatives, high tax rates on rental incomes, the sluggishness of the judicial system in cases of arrears, and conflicts between tenants and landlords.
For many households, these social and economic factors have generated a problem of rental affordability (D'Alessio & Gambacorta, 2007). It is therefore important to ask how public policies intervene to protect low-income renters and what results they have so far obtained in Italy. Equity considerations are not the only reasons that could justify public intervention in the rental market. There are also valid efficiency motivations. The availability of dwellings at affordable rents guarantees the mobility of the labour force across cities and thus favours the growth of the more dynamic areas. Furthermore, many researchers have suggested that the insufficient supply of affordable dwellings may represent an important factor explaining why in Italy and in other Mediterranean countries the young generations tend to remain in their original families much longer than in the rest of Europe (Bernardi, 2005; Facchini & Villa, 2005; Mencarini & Tanturri, 2006; Mulder & Billari, 2010).
In this paper we study to what extent the economic conditions of Italian renters are improved by three housing policy instruments: social housing, guaranteeing rents much lower than in the private market; a tax credit for renters in the context of the personal income tax; a housing allowance aimed at reducing the burden of rents in the private market for households with low incomes. The distributive impact of these three schemes is evaluated using a sample representative of the whole Italian population and, in the case of the housing benefit, also with the help of register data that we have collected from some of the biggest Italian cities.
From a housing policy evaluation perspective, the analysis of the outcomes of these three instruments also enables us to focus on the consequences of the shift from supply-side (social housing) to demand-side instruments (direct and indirect dedicated transfers) in Italy.
Previous research in this field for Italy has concentrated on the effects of the imputed rents on poverty and income distribution. D'Ambrosio and Gigliarano (2007) find that adding imputed rents from all dwellings (rented, owned or with sub-market rents) on cash incomes of all households produces a reduction in both poverty and inequality. Marical *et al.* (2006) focus on social housing, and similarly find a small but significant effect on inequality. With respect to the paper by Paulus *et al.* (2009), that considers the impact of three public benefits in kind (health, education and housing) in some EU countries, we find for Italy a greater effect of social housing on income distribution. From these results, this paper makes two main steps: we consider the distributive impact of all the forms of transfer targeted to tenants, not only social housing, and use two complementary kinds of data to provide further evidence on the effects of the rent supplement scheme: not only a sample survey representative of the whole country, but also administrative data for nine of the major Italian cities. To the best of our knowledge, no previous studies are available on the outcomes of the rent supplement scheme in Italy, but only some regional reports (see Lungarella, 2006 for a review).
The main institutional characteristics of the three schemes are described in the next section. Then we present a distributive analysis carried out with the help of a tax-benefit microsimulation model developed upon the Eu-Silc data. The further section discusses the effects of the rent supplement scheme using register data. Lastly, some conclusions are drawn.

Direct and indirect transfers to renters in Italy

Social housing

In the European context, Italy emerges as one of the countries where social housing is less developed and, more generally, public expenditure for housing is lower: according to Eurostat data, only 0.1% of total social expenditure is devoted to housing[1] and less than 5% of all households live in social housing. The public sector is almost the exclusive provider of social housing, now decentralised to local authorities (regions and municipalities).

The limited dimensions of social housing supply are not wholly due to recent reduced public investments in this sector. What characterizes this sector is the constant tendency of the Italian governments to privatize public dwellings, given that ruling parties have sought to create a large class of owners, politically moderate, and Italian households have always expressed a great preference for owning over renting.

Starting from the 70s, the implementation of social housing programmes has been subject to a strong decentralization process. Currently, Regions, municipal authorities and the publicly owned local social housing institutes are involved in the construction of new dwellings and in the definition of the admittance rules, according to criteria of social and economic needs. Actually, and particularly in the biggest urban areas, the need to find an accommodation for households that have been evicted within the private rental sector — end of lease evictions were a major problem during the 1980s and the 1990s — has led to the systematic use of exceptional criteria for the allocation of dwellings that has partially altered the distributive aims of social housing (Olagnero, 2002), since having been evicted has been given priority over other criteria of social and economic need.

Many households remain in a social housing dwelling for their entire life, and sometimes the flat is passed on to the heirs. The low turnover rate can be explained not only by organizational deficiencies, but also by the concentration in the social housing sector of many households with relevant social and economic problems. The development of poverty traps is therefore a concrete risk. Since the supply of private rental homes is scarce and costly, the preservation of the flat is a strategic resource that must be kept and, if possible, passed on to subsequent generations.

Tax credit for tenants

The taxation of the main residence for homeowners is based on the cadastral value of the dwelling, well below market values. It has also been progressively lightened over the last few years. Since 2001, the imputed rent is, for example, fully deductible from taxable income, like the capital gains from the sale of the main residence. Further, in 2008 the government exempted the main residence also from the local property tax, which landlords still have to pay on their dwellings, and which is likely to be translated to their tenants. In order to offset (at least partly) these tax reductions for homeowners and to mitigate the effects of the liberalization of the rental market, a tax credit from the personal income tax in favour of taxpayers living in a privately rented dwelling was introduced at the beginning of the new millennium. It was originally confined to "regulated" rental contracts, one of the contractual forms that the 1998 reform created, based on agreements between local associations of tenants and landlords. These regulated contracts introduce some tax concessions to landlords, if they agree to charge rents lower than the prevailing market levels, but also for tenants. In 2008 the tax credit was extended to all tenants in the private market. Different amounts have been set according to the type of the contract: for free contracts the credit is 300 euro for personal incomes lower than 15,493 euro, and 150 for incomes in the range 15,493-30,983. In the case of "regulated" contracts, the tax credit is, for the same income brackets, 460 and 230 euro respectively. For tenants aged less than

[1] Eurostat database, Living conditions and welfare, Social protection expenditure, accessed online on 17 February 2010.

30 years the maximum amount of the credit can reach 950 euro. Households cannot apply for both the rent supplement scheme described below and this tax concession.
The credit depends on the personal income of the taxpayer who has signed the rent contract, not on the economic condition of the household or the number of family members. It is an indirect contribution to housing expenditures, uniformly provided across the regions. Being an entitlement of taxpayers who satisfy its prerequisites, this tax expenditure is not subject to a ceiling of revenue loss. Our tax-benefit microsimulation model, presented below, estimates that this credit could produce a revenue loss of about 750 million euros each year. This estimate is obtained assuming that all taxpayers with the requisites required by the law obtain the credit, i.e. by imposing full take-up. In the simulation, we take account of the different amounts of the credit for free and regulated contracts, and also of the greater sum for young tenants.

The rent supplement scheme

A first national scheme for a rent supplement was formally introduced in 1978, in the context of the "equo canone" (fair rent) regime, but was never implemented. Several cities experimented housing allowances during the 1990s as a policy instrument complementary to social housing provision. A national scheme was finally introduced in 1998, by the same law that liberalized the rented market, as an income-related form of housing support.
The rent supplement is targeted towards poor households, generally distinguished into two groups for this purpose: the poorest comprises households with an income lower or equal to twice the minimum state pension (around 11,900 euros in 2010), while the other, less poor group consists of households eligible for social housing accommodation, according to the (higher) income criteria defined by each regional government. The allowance aims to increase the affordability of current leases in the private market. After receipt of the transfer, the rent-to-income ratio cannot fall below 14% (for the first group of very poor households) and 24% (for households eligible for social housing). Ceilings exist also on the benefit available to individual beneficiaries, while more generous conditions apply for socially vulnerable households and those with "special needs": households with many children or invalid or elderly members. Within this national framework, regional administrations and municipalities set their implementation criteria. These may differ in terms of procedures, eligibility norms, forms of means test and amount given to recipients. National funds are allocated to the regional administrations according to their estimated housing and affordability needs. These funds are often integrated by resources from the regional administrations and the municipalities. In 2008, for example, the central government allocated 205.6 million euros for this transfer, which were then supplemented with 115.6 million from the Regions and 36.6 millions from the municipalities. The latter represent the level of government responsible for the actual implementation of the benefit.
The mechanism of the transfer can be summarised by this expression:

$$TR = R - a\,Y,$$

where R is market rent, Y is family income and a is the part of the rent, expressed as a percentage of Y, that the family must in any case pay: it is therefore 14% for the poorest group of tenants, and 24% for the other group. This formula, however, expresses only the theoretical scheme, because in practice the amount received by the household depends on the municipality-dedicated budget. In case of a reduction in the grants from central government or an increase in the number of applications, the municipality can react by cutting proportionally the transfer to all recipients, or by defining a fixed amount for each of the two groups of beneficiaries, or, lastly, by restricting the pool of recipients to the needier households. The amount effectively transferred to eligible households depends therefore on their income and rent, but also on the number of recipients who have to share the limited resources yearly allocated by the various levels of government. From this point of view, the Italian housing allowance scheme is outside the European standards and more similar to the US housing voucher program (Kemp, 2007).

Overall, as already mentioned, the functioning of this policy instrument is somewhat differentiated over the country. In some regions it is clearly presented as an alternative to social housing and tenants in this sector are not eligible. In other regions, where rents in the social housing sector have been set to about their market level, this benefit is considered complementary to social housing, so all tenants are eligible for the supplement. Local councils periodically open tenders for the rent supplement. The timing of existing procedures leads to housing allowances being transferred to beneficiaries a minimum of 1-2 years after the latter have paid the rents the benefit relates to.

As for the measurement of the economic conditions of applicants, the 1998 law makes a generic reference to household income. Many Regions have actually opted for the sum of the incomes subject to the personal income tax of all family members, but some have preferred to use the Indicator of the Economic Situation (known in Italy as Ise, *Indicatore della situazione economica*), a measure introduced by another law of 1998, aimed at defining a new and uniform criterion to evaluate the economic conditions of all households that apply for welfare services. Ise aims to take into account not only income but also real and financial assets, at least to some extent (Baldini *et al.*, 2002). Finally, due to limitations in data availability, in this paper we do not consider the possible effects of this benefit on the rents that its beneficiaries pay, that have been shown to be far from negligible in other countries (see Fack, 2006, for a review and for an assessment for France). The analysis is then focused on the formal and first-round distributive outcomes of the Italian housing allowances scheme. We have been unable to distinguish what is really received by the beneficiaries and whether landlords also benefit from this transfer, via rent increases, and to what extent in the latter case. While this relevant issue is left to further research, our study is still valuable. Evidence is provided below on the poor performance of housing allowances in Italy, as one of our main findings. Should further research provide evidence on the real benefits of the recipients being even less than what we have estimated, this would not contradict our main point: allowances seem a not very effective housing policy instrument in Italy. Clearly, further research could support more informed choices when considering the alternatives of, for example, providing more funds to this scheme as it is, or re-designing it, or re-orienting housing policy towards other instruments.

The distributional impact of transfers for renters: evidence from survey data

In this section we study the distributive impact of the three policy instruments for renters described above. The analysis is carried out on the 2006 It-Silc survey, the Italian section of the European Statistics on Income and Living Conditions (Eu-Silc), containing information on the socio-demographic characteristics of Italian households referring to the year 2006, and on the incomes received during 2005. This sample is composed of 21,499 households. The It-Silc dataset is particularly useful for our purposes since it contains two questions specifically related to housing allowances: whether the household received housing allowances during 2005, and the amount received. It also provides information on the landlord, so that it is possible to single out those households living in the social housing sector. The use of this survey to study the tax credit for renters is, however, more problematic: the sample contains only information about net income, so the receipt of the tax credits cannot be directly computed. To this end, we reconstructed for each individual the amount of gross taxable income, using an iterative procedure. We then simulated the personal income tax at the individual level, considering also different propensities to evade for self-employed and dependent workers, computing all potentially available tax credits, including that reserved for renters. These steps were performed

within the set-up of a complete tax-benefit microsimulation model that allows the distributional impact of transfers and taxes on Italian households to be studied (Baldini and Toso, 2009).
The unit of analysis of our simulations is the household, a choice imposed by reasons of consistency with the study of the administrative data that follows in the last part of the paper. The living standard is measured by household disposable equivalent income, obtained by dividing household disposable income by the modified OECD scale. We assume that all members of a household share the same level of economic welfare. Disposable income is computed by summing all money receipts obtained by the household. For the classification of households into deciles of disposable equivalent income, we consider the distribution of incomes after the receipt of the three transfers to tenants. All monetary amounts are expressed in 2009 prices. To the disposable income of each household we then added the imputed rent for homeowners and the implicit transfer to tenants in the social sector. These amounts were estimated according to the method described below.
While the amount received by each family for housing allowances is taken from the It-Silc questionnaire, and the tax credit for renters is simulated on the same data base, determining the benefit obtained by households living in social housing is more complex. The implicit benefit received from social housing is the difference between the rent that would have been paid in the free market and the rent actually paid. There are many methods to estimate this sum, described for example by D'Ambrosio and Gigliarano (2007, see also Frick and Grabka, 2003). In all cases, the market rent is estimated first, from which the rent really paid must be deducted. In this work we have opted for the opportunity cost method, that estimates the hypothetical market rent on the basis of the rents actually paid for dwellings with similar characteristics. We ran a hedonic linear regression on the subsample of households living in privately rented flats and paying market rents. The dependent variable is the log of rent per square meter, and the explanatory variables are the usual likely determinants of the price: year of building, number of rooms, size of the town, geographic area of residence, qualitative attributes of the flat, etc. From the estimated coefficients, we imputed a market rent to all households of the It-Silc data, except those in the private rental sector (no implicit returns or transfers derive from this tenure). Obtained market rents were used both to estimate the implicit subsidy deriving from living in the social housing sector and in order to take into account imputed rents for home owners and for those who can benefit from a rent-free accommodation. In the latter two cases, the costs for repair and maintenance and the extraordinary expenses for renovation were deducted, following the method used by D'Ambrosio and Gigliarano (2007). Interests paid on mortgages were also deducted, taking into account the 19% tax credit on them.
Table 1 shows the distribution of households by deciles of equivalent income (if not differently specified, in this paper we consider income after inclusion of the three transfers for renters and of imputed rents for homeowners and rent-free dwellings) and by tenure status. The last row contains the distribution of households among the four tenure statuses. Tenants are clearly concentrated in the poorest deciles.

Tab. 1 Distribution of households by deciles of equivalent disposable income and tenure status.

	Tenants	Owners	Usufruct	Accomodation provided free
1	21.02%	6.83%	7.76%	12.39%
2	15.09%	8.53%	9.43%	10.98%
3	11.86%	9.11%	13.58%	11.47%
4	11.74%	9.39%	13.9%	9.63%

5	9.99%	9.93%	11.59%	9.89%
6	7.89%	10.38%	10.91%	10.98%
7	6.81%	11.05%	10.37%	8.55%
8	6.49%	11.09%	8.07%	9.62%
9	5.09%	11.57%	7.94%	8.94%
10	4.01%	12.14%	6.46%	7.54%
Total	100%	100%	100%	100%
% of all Italian households	18.25%	68.33%	3.53%	9.89%

Note: as for all other tables of this section, households are classified in deciles computed over the total distribution of households in Italy, including both renters and owners.

Information on how many households benefit from each of the three housing transfers is provided in Table 2, considering only the subsample of tenants. The tax credit is by far the most widely used benefit for tenants — at least hypothetically, since it is a new instrument — being received by about three out of five million renter households. It is also fairly well distributed across the income deciles. The implicit subsidy provided by social housing is distributed in a way that does not correspond to many prior beliefs: even if the share of tenants in social housing is greater in the bottom half of the population of renters, the income gradient of beneficiaries is not very steep. The low turnover rates, which can be explained also by widespread administrative inefficiencies, at least in some parts of the country, allow many households to remain in the social housing sector even if they are not poor. The rent supplement is received by a tiny minority of tenants, around 5%. Many of its beneficiaries are in the first deciles.
Housing allowances cover a very small share of households in the rental segment when compared to other European countries. Recipients of housing related transfers are in fact about 10% of all tenants in Germany and more than 30% in the Netherlands and Sweden; housing benefits cover about one quarter of the tenants in the UK private market (Haffner and Boelhouwer, 2006). In Italy, this marginal housing support via transfers goes hand in hand with the limited role of social housing already discussed.

Tab. 2 Share of renters receiving each transfer, by deciles of equivalent disposable income

	Social housing	Rent supplement	Tax credit
1	16.99%	8.40%	58.11%
2	23.99%	8.77%	68.53%
3	24.82%	4.84%	66.59%
4	20.72%	4.59%	62.29%
5	22.44%	1.07%	62.82%
6	24.66%	4.08%	59.75%
7	16.17%	2.73%	55.53%
8	13.42%	5.02%	49.07%
9	17.62%	1.51%	28.86%
10	10.96%	0.00%	10.47%
% of all renters	20.07%	5.22%	57.62%
% of all Italian households	3.66%	0.95%	10.51%

Table 3 provides evidence on the percentage incidence of the transfers on disposable income (defined, as always, after the receipt of all the considered benefits for renters and imputed rents for the others), still only for tenant households, that are allocated in the deciles computed over the entire income distribution. The table also contains the average rent paid, as a share of disposable income. Overall, rents represent, for all tenants, 19.6% of their disposable income. This share reaches 42.9% for renters belonging to the first decile of the total distribution, and 10.8% for the top one. The sum of the three transfers targeted to renters is 7.8% of disposable income for the first decile, 0.7% for the tenth. The "hypothetical" rent is the amount that tenants would pay without considering also the subsidy implicit in social housing. This is therefore the burden of rents on disposable incomes without public intervention. Column g contains the rents actually paid, always as a percentage of disposable income (the difference between colums *e* and *f* is therefore given by social housing). Then follows the remaining burden from rents, after the deduction of the three benefits. The last column is the % reduction in the hypothetical rent realized by the transfers. Taken together, these three instruments reduce the incidence of rent on income from 47% to 39.2% for the bottom decile (a 20% reduction), and from 21.9% to 18.5% for the whole sample of tenants. Turning to each of the three subsidies, social housing has by far the greatest effect, since it represents about two thirds of total transfers for renters, then follows the tax credit, and finally the rent supplement, that presents a very low incidence, owing to its small number of beneficiaries and — as discussed below — to the limited funds available.

Tab. 3 Incidence of transfers on disposable income by deciles, tenants only

	a	b	c	d	e	f	g	H
	Social housing	Rent supplement	Tax credit	Total (3 transfers) (d=a+b+c)	Hypothetical rent	Rent paid (f=e-a)	Residual burden of rent (hypothetical rent – benefits) (g=e-d)	% reduction in hypotethical rent (h=-d/e)
1	4.52%	0.75%	2.56%	7.84%	47.02%	42.92%	39.18%	-20.01%
2	3.61%	0.61%	1.51%	5.73%	27.32%	23.75%	21.58%	-26.56%
3	4.08%	0.22%	1.46%	5.76%	25.97%	22.07%	20.22%	-28.47%
4	2.98%	0.25%	0.90%	4.13%	23.89%	20.96%	19.76%	-20.89%
5	2.85%	0.07%	0.66%	3.58%	22.40%	19.77%	18.82%	-19.04%
6	2.44%	0.17%	0.52%	3.13%	18.96%	16.52%	15.83%	-19.79%
7	1.56%	0.08%	0.44%	2.08%	16.73%	15.20%	14.66%	-14.17%
8	1.25%	0.08%	0.34%	1.66%	17.04%	15.83%	15.38%	-10.82%
9	1.20%	0.05%	0.20%	1.45%	15.23%	14.04%	13.78%	-10.53%
10	0.71%	0.00%	0.02%	0.73%	11.46%	10.76%	10.73%	-6.85%
Total	2.45%	0.21%	0.81%	3.47%	21.94%	19.58%	18.47%	-18.79%

Note: incidence is computed on all renters, not only on households receiving each benefit.

All the benefits for renters perform well in terms of targeting low incomes. Their vertical expenditure efficiency, i.e. the share of each transfer that goes to the poor, defined on the basis of a poverty line computed on incomes before the receipt of the three transfers for renters, is high: 44% for both social housing and the tax credit and 59% for the rent supplement.

Despite a good targeting, transfers for renters have a modest impact on inequality and on the levels of poverty tied to housing conditions. Starting from the share of households that are poor in terms of disposable equivalent income before housing costs (i.e., monetary income for renters, monetary income plus imputed rents for homeowners and those in rent-free dwellings), Table 4 shows the impact of the three measures for renters on the diffusion and intensity of poverty. The indexes of the second row are computed after subtracting from income the housing costs (rents for tenants, imputed rents for owners), and therefore show the effect of housing costs on poverty and inequality. The third line adds to these incomes the three transfers for renters, thus evaluating their impact on poverty produced by housing costs: they reduce overall poverty very marginally, and poverty among tenants by 3.5 percentage points — not very much, considering their high poverty levels. Finally, for reference, the last line shows the indexes computed according to the standard income definition (that we followed in constructing the deciles), i.e. monetary income plus imputed rents and benefits, without subtracting rents paid by tenants. Given that the transfers for renters have an appreciable targeting, the reason for their small impact on poverty rates lies in the limited amount of resources invested.

Tab. 4 Impact of transfers for renters on income poverty and inequality

	All households		Tenants		Gini, all households
	Head count	Intensity	Head count	Intensity	
Before housing costs and transfers for renters	19.00%	30.59%	24.63%	32.77%	0.3218
After housing costs but before transfers for renters	20.26%	35.40%	39.24%	44.51%	0.3376
After housing costs and transfers for renters	19.87%	34.76%	35.67%	43.94%	0.3342
Disposable income, standard definition	16.59%	28.23%	31.98%	31.97%	0.3006

The impact of the three subsidies differs markedly also across non-income dimensions. When considering the age of the recipients, the probability of benefiting from social housing is much greater for older households, while 63% of total tax expenditure for the tax credit goes to households whose reference person is younger than 50 (not shown). The rent supplement is, as well, more targeted in favour of young households. The presence of a disabled person strongly increases the probability of being in social housing, while the reverse is true for households with a reference person born abroad.

The total value of resources transferred to renters with the three schemes can be estimated at about 3.7 billion euros per year (72% social housing, 7% rent supplement and 21% tax credit). According to the evidence so far described, this amount is not sufficient to reduce poverty levels significantly. But tenants in Italy are a subset of the population with low average incomes, so it may be excessive to require these transfers to have a non-marginal effect on their poverty risk. They are, in fact, dedicated housing policy instruments and not income maintenance ones, even if these two policy issues are clearly connected. We can pose a more pertinent question: are these transfers sufficient to significantly relieve the burden of rents on family budgets? After setting a conventional threshold that defines a “sustainable” ratio between rent and monetary income, e.g. 25%, how much resources would be necessary, in addition to those already invested, in order to bring middle and low income tenants below this level? Before transfers, around 27% of tenants in the first 5 deciles would pay more than 25% of their income in rents. After the three transfers, this share falls to 23%, a marginal reduction consistent with previous results. If we want to increase the transfers to the tenants below median income so as to reduce the rent-to-income ratio to 25% for all of them, it turns out that it would be necessary to directly or indirectly dedicate an additional flow of around 3.2 billion euros more each year. This supplementary transfer would still have limited effects on the levels of poverty and inequality (the overall headcount ratio, for example, would fall only from 16.6% to 16.2%). This amount must also be considered as a minimal sum, for at least two reasons: firstly, it assumes a 100% targeting, while each reinforcement of the existing measures would at least partly benefit also some households in the top 50% of the income distribution; secondly, if in the near future new policies to increase the supply of houses for rent are introduced, as many propose, the number of households opting for the rental solution will increase, and with it also the need for income transfers targeted to them.

The distributional impact of the rent supplement scheme: evidence from register data

The It-Silc survey enables the distributive outcomes of the rent supplement at the national level to be studied. However, the number of recipients within the It-Silc sample does not permit a more detailed analysis of its effects across different areas. Since it is administered by local governments, some differences may likely emerge with more disaggregated data. The register data of applicants and recipients therefore represent an alternative source of great interest. They allow a more detailed analysis of the social composition of the rent supplement recipients and of the distributive outcomes of this allowance. They also enable differences across the regions in the rent supplement implementation to be taken into account.

Despite their great analytical potential, problems and limitations also occur when using register data: access to the data themselves is not granted, they are not always stored in digital data bases and — when they are — different standards may have been applied. Furthermore, there is a weak tradition in Italy in the use of register micro-level data for social and economic research. Access to the data needs to be negotiated with each local authority and their quality must be assessed. As already mentioned, differences in the implementation across regions and municipalities exist and are likely to have an effect on the data structure and quality. Data harmonization is hence an issue. Considering both analytic potentialities and mentioned problems, we collected administrative data on the recipients of the rent subsidy living in 9 major Italian cities: Milan, Turin, Genoa, Venice, Bologna, Florence, Naples, Bari, Catania (for different reasons we could not obtain data from the other contacted cities: Rome, Palermo, Messina and Verona). The choice to focus on the largest cities comes from both research concerns and practical constraints: the share of tenants is greater in urban areas — where housing problems are also concentrated — than in the rest of Italy; the geographical distribution of these cities affords some substantive representativeness of the different national contexts and implementation approaches; the choice to focus on the major cities simplifies both bargaining access to the municipalities' archives and data harmonization.

The data that we have collected so far cover variable time periods for the different towns[2]. The statistics we present refer to the most recent available year for each town, at constant 2009 prices. Data we gained access to provide information on applicants' characteristics and their household composition, on their economic conditions, on the rent paid and the housing allowance they have received.

In analysing this alternative data source, we try to answer two questions. Firstly, do these data broadly confirm the results obtained for the rent supplement on the basis of the It-Silc survey? Secondly, which additional insights do these more detailed data provide, in particular in terms of difference in implementation and results across municipalities? Table 5 contains a series of statistics computed on the administrative records of the various towns. The first row shows the total number of households living in rented dwellings, computed applying the percentage of renters from the 2001 Census to the total number of households in each town, obtained from Istat[3]. The table, except for the first row, refers only to the transfer recipients. The share of tenant households who receive the rent supplement is in general low (row 3), thus confirming the limited diffusion of this instrument observed on the It-Silc sample. There are however relevant differences across the cities: in Milan, for example, the probability of receiving this transfer is less than half that for tenants living in Turin, and a third of that relative to Bologna. The average amounts received by each beneficiary (row 4) are negatively correlated with these incidences: some municipalities (for example Milan, Florence and Naples) have preferred to concentrate the subsidy to only a few tenants, those most in need, and to transfer to them relatively high average amounts. Others, like Turin, Bologna or Bari, have preferred to enlarge the pool of beneficiaries, at the cost of a reduction in the average transfer.

[2] For Milan, we have data for 2006 and 2007; for Turin, the period covered is 2003-2005; Bologna: 2000-2006; Genoa: 2005-2006; Venice: 2004-2005; Florence: 2004-2007, Naples: 2000-2002; Bari: 2003-2006; Catania: 2002-2005.

[3] We use the number of households estimated by Istat (http://demo.istat.it, *bilancio demografico*) for the years referring to the data we use (2007 for Milan and Florence, 2006 for Bologna and Bari, 2005 for Turin, Genoa and Catania, 2004 for Venice, 2002 for Naples).

Tab. 5 Indicators for the rent supplement scheme in selected cities

	Milan (2007)	Turin (2005)	Genoa (2005)	Venice (2004)	Bologna (2006)	Florence (2007)	Naples (2002)	Bari (2006)	Catania (2005)
1. N. tenant households	233,881	138,765	73,413	31,434	57,735	42,449	162,337	37,021	41,515
2. N. households receiving the rent supplement	8,109	11,187	3,199	2,060	6,084	963	7,579	6,276	2,053
3. % tenant households receiving the rent supplement	3.5%	8.1%	4.4%	6.5%	10.5%	2.3%	4.7%	17.0%	4.9%
4. Average yearly transfer for to each beneficiary	1,723	1,032	1,153	2,472	1,083	1,948	1,592	836	675
5. Average yearly rent paid by each beneficiary	6,538	4,034	4,625	+ 5,797	6,675	7,245	4,058	3,872	3,230
6. Average taxable income of households receiving the transfer	11,634	9,372	7,864	11,224	15,361	10,214	5,464	9,355	9,257
7. Average transfer / average rent	26.4%	25.6%	24.9%	42.6%	16.2%	26.9%	39.2%	21.6%	20.9%
8. Average transfer / average taxable income	14.8%	11.0%	14.7%	22.0%	7.1%	19.1%	29.1%	8.9%	7.3%
9. Average rent / average taxable income	56.2%	43.0%	58.8%	51.6%	43.5%	70.9%	74.3%	41.4%	34.9%
10. (average rent – average transfer) / average taxable income	41.4%	32.0%	44.2%	29.6%	36.4%	51.9%	45.1%	32.5%	27.6%
11. % recipient households that belong to the first decile	38.2%	40.3%	50.4%	32.4%	15.5%	47.1%	76.2%	51.35%	n.a.
12. % of total expenditure to the first decile	58.3%	46.4%	55.5%	39.2%	18.3%	46.4%	77.7%	58.6%	n.a.
13. % recipient households that are poor before the transfer	77.4%	81.0%	84.1%	77.7%	46.1%	87.6%	94.7%	88.3%	n.a.
14. % recipient households that remain poor after the transfer	71.9%	76.1%	79.8%	61.6%	40.6%	77.9%	92.5%	86.2%	n.a.
15. Reduction in the incidence of poverty among beneficiaries (percentage points)	-5.5	-4.9	-4.3	-16.1	-5.5	-9.7	-2.2	-2.1%	n.a.
16. % households with applicants aged more than 60 years	24.0%	38.4%	44.8%	42.8%	21.6%	n.a.	28.0%	29.5%	28.4%
17. % households with applicant born abroad	60.0%	26.5%	25.6%	23.6%	39.0%	n.a.	0.8%	7.6%	6.0%
18. Average number of components	2.4	2.0	2.1	2.2	1.9	2.1	3.2	2.7	n.a.
19. % Recipient households in overcrowded dwellings ***	28.8%	n.a.	n.a.	* 9.2%	** 9.8%	13.3%	n.a.	21.0%	n.a.
20. % Recipients who received the benefit the year before (%)	65.9%	82.2%	n.a.	*66.4%	69.9%	63.0%	60.1%	78.6%	68.1%

*Notes: Estimates for years * 2005 and **2004. *** A dwelling is defined overcrowded if : 1-2 individuals live in less than 30 m^2; 3 in less than 50 m^2; 4 in less than 65 m^2; 5-6 in less than 80 m^2; 7 in less than 95 m^2; 8 or more individuals in less than 110 m^2. For households of Catania information is available only on the number of children, so we could not compute the statistics based on equivalent incomes or the total number of members.*

The transfer covers, on average, a very variable share of the yearly rent (row 7): it reaches almost 40% in Naples, but is only 16% in Bologna and about 21% in Bari and Catania. Likewise, it is a significant share of total household taxable income in some cases (row 8, in particular in Naples) but falls to less than 10% in other cases (Bari and Catania). Row 8 corresponds also to the percentage reduction in the burden of rent on taxable income allowed by the rent supplement. The next two rows show the incidence of the rent on income, before and after the transfer.

Howfar is this benefit targeted to the poor? We used the It-Silc data to compute the levels of equivalent taxable income that split Italian households into deciles, and on this basis we checked — for each town — how many beneficiaries are in the first decile of the Italian income distribution and the share of the rent supplement expenditures in the municipality targeted to the first decile (rows 11 and 12, respectively). There is a wide variation in the degree of targeting, generally higher in the towns of the Centre-South, and lower in the North. This result is partly due to the fact that average incomes are somewhat different across Italian regions, but differences still remain across urban areas with similar living standards: e.g. in Florence 46% of the beneficiaries belong to the poorest 10% of Italian households, while in the nearby town of Bologna this share falls to only 14%. The high degree of targeting is confirmed by the fact that most of the beneficiaries are poor, with a poverty line defined as 60% of the national median of taxable equivalent household income (row 13). The outlier here is again the town of Bologna. Recipients living in the North are less poor than those in the southern towns, since the share of beneficiaries that exit from poverty after the transfer is higher in the former group (rows 14 and 15).

Rows 16-18 provide evidence on some demographic characteristics of beneficiaries, in particular the age and place of birth of the person who has applied for it, and family size. Genoa has a population significantly older than the other big towns, so it is not surprising that the age distribution of the allowance is skewed towards the elderly. In Naples, on the other hand, there are a lot of poor families with children, so the age composition of the beneficiaries is very different from that prevailing in the North. Like social housing, the housing allowance is often accused of being increasingly directed towards poor immigrants, who could have a preferential access to this subsidy given their frequent characteristics of low incomes and high number of family members. In general, immigrants account for a very high share of total beneficiaries in Milan and also in Bologna, while they represent a quarter of total beneficiaries in the rest of the North. These shares are also steadily increasing over time (not shown). In the Southern towns the participation of foreign-born households in this scheme is negligible, consistently with the strong concentration of immigrants in Northern (and Central) Italy.

It should be noted, however, that foreign households are well over-represented in the rental sector. Furthermore, in many regions several criteria seem to discriminate against immigrants in the allocation of social housing, ranging from “residence seniority” scoring to ex-ante quoting of dwellings available for foreign citizens. These factors may explain their notable incidence among the beneficiaries of the rent supplement.

In the debate on the pros and the cons of the demand-side housing policy instruments versus the supply side ones, two issues are particularly relevant: the targeting to those more in need, and the ability to deal with changes over time of economic and housing conditions (Adams, 1990; Haffner & Boelhouwer, 2006). While supply-side policies are considered to have largely contributed to the improvement of housing conditions, they are also accused of subsidizing bricks-and-mortar, instead of households: except perhaps when a social housing dwelling is originally allocated, there is no guarantee that this form of support is optimally allocated to those most in need, as social and economic circumstances vary along the life span. This may also lead to poverty traps and disincentive effects. Housing allowances are expected to better target poor households and to better deal with their time-variant social and economic circumstances, even if they are not exempt from the risk of creating possible poverty traps and of discouraging work effort, given their inverse correlation with family income. Furthermore, it is generally assumed

— with good reason — that housing affordability is today a core issue whereas bad housing conditions are often merely a residual heritage from the past. In this perspective, the welfare state should better support incomes via specific transfers to be spent on the housing market, able to provide good housing conditions and to match supply and demand.
Register data provide the opportunity for a first discussion on these issues. One preliminary way to address the possible "dependence" on the benefit, given our very short time series for each city, is to consider the share of recipients who benefited from the rent supplement the year before the one considered (row 20). Households receiving the allowance for the second (or more) consecutive year range from 60% to 80% of beneficiaries. This marks a not-negligible degree of persistence that would deserve further investigation. However, the limitations of income maintenance policies and the lack of opportunities in the labor market of the South suggest that such persistence may depend on the poorest of the poor being housing allowance recipients.
As regards housing conditions, we were able to analyze the level of overcrowding among beneficiaries, for some of the cities considered (row 19). The incidence of this problem varies across the municipalities, ranging from 9% in Venice and Bologna to 28% in Milan. These figures confirm the persistence — even if with a small incidence and considering only overcrowding — of poor housing conditions in Italian cities and their overlap with economic poverty. The capacity of housing allowances to deal with this problem, in the context of the Italian rental market, would deserve further investigation.

Conclusions

The evidence gathered shows that all transfers for renters are concentrated towards the poorer section of the income distribution. This characteristic depends not only on their design but also on the fact that many tenants are poor. A policy addressed towards renters has therefore by definition a good degree of target efficiency.
The main problem of the current transfers lies in the limited resources now devoted to them, insufficient not only to significantly reduce poverty levels across tenants — it can be argued that income maintenance policies should pursue this general objective — but even to reduce the burden of rents for poor and middle-income households within reasonably affordable limits. While the distributive impacts are similar for the three measures, their generational effects are very different: social housing favours older households, largely because of the drastic contraction in the supply of new dwellings in the last twenty years, coupled with low turnover rates, while the rent supplement is more concentrated towards younger households but reaches a very limited share of tenants. Results from register data corroborate the evidence obtained on the basis of the It-Silc survey, in particular the limited incidence of the rent supplement scheme among the tenants, but also its good target efficiency. However, they highlight also important differences in the implementation and the results of the scheme across Italian towns. Furthermore, when considering both "dependence" on this benefit and recipients' housing conditions, some other criticalities emerge for this policy instrument.
Social housing is an in-kind transfer whose main current limitation is the substantial stalemate of the whole sector, due to lack of resources for new investments. An extensive debate is now ongoing about possible alternatives to the traditional model of funding from central government and implementation by local authorities. The objective is to find new criteria and subjects that may promote innovative forms of supply.
As for the two other transfers for renters, the recent strengthening of the tax credit has generated the problem of its coordination with the rent supplement. They have very different structures. The rent supplement depends on the total resources of the family, while the tax credit depends on the individual income of the taxpayer who signed the rental contract. The first is administered by Regions and municipalities, has great admimistrative costs and is not an entitlement, while the

second is part of the personal income tax and is guaranteed to all taxpayers who fulfil its conditions.

We can imagine different solutions to coordinate the two schemes. The first is the elimination of one of them and its absorption into the other. The abolition of the rent supplement would translate into an increase in poverty, since it reaches poorer households than those receiving the credit. Conversely, the abolition of the tax credit and the expansion of the rent supplement could reduce poverty, but with a welfare loss for many households who, albeit not poor, are exposed to an increasing burden of rents, given the stagnating dynamics of incomes.

Since the rent supplement and the tax credit reach different households, the elimination of one or the other is not advisable. One could instead distinguish more clearly between them, in terms of their functions. The tax credit should have the objective of horizontal equity, consistent with its position within the personal income tax. It should counterbalance, for renters, the advantage given to owners by the exclusion of the imputed income of the house from the tax base. The rent supplement, on the other hand, should have a vertical equity aim, i.e. the reduction of the rent burden for tenants with low incomes.

The main current problem of the rent supplement is now its low and falling endowment. With the caveat of possible inflationary effects, that must be investigated, a greater effort in this direction could, thanks to its strong efficiency, have a significant impact on the living standards of low-income renters.

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