

18. Housing Allowances in a Welfare Society: Reducing the Temptation to Cheat

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EDITOR'S NOTE: Resentment of those "getting a free ride" on welfare is close to the surface in any society and frequently erupts in witch hunts for welfare cheats or "social security scroungers." This resentment has been exploited in a recent British government campaign, "Beat-A-Cheat," to encourage members of the public to turn in people whom they think are making fraudulent welfare claims. The campaign was dubbed a "snoopers' charter" by the government's opponents, one of whom angrily said in Parliament: "Encouraging your next-door neighbor to snoop on you is the sort of community values we now expect in Britain" (New York Times, October 29, 1996, p.A10). That there is a better way to reduce welfare fraud is shown by this pioneering case study first published by the Swedish National Council for Crime Prevention (Kuhlhorn, 1982). When statements made about personal income to obtain housing allowances could be cross-checked by computer with other statements of income to determine sickness payments, this reduced the temptation for claimants to cheat by understating their incomes in order to obtain higher housing allowances. A survey of the public revealed that nearly 90 percent of the recipients of housing allowances approved of these computer checks. Most had nothing to fear, of course, but some may have been relieved that the temptation for them to cheat as well had been removed.

Housing Allowances

In a modern welfare society the state and the local authorities have an important role as redistributors of economic resources. People who have high incomes and/or are at the peak of their productive career have to pay higher taxes, which are then distributed to low-income earners and persons in unproductive phases. This redistribution function creates a tempting opportunity structure for white collar crime; a person who conceals his financial assets avoids payment of taxes and can benefit by various allowances provided by the Welfare State. This paper will deal with one such crime against the Welfare State, namely cheating on housing allowances in Sweden and the effects of preventive measures.

The Swedish system of housing allowances covers 472,000 households, i.e. 14 per cent of all households.¹ The intention is that housing allowances shall provide support especially for families with children having low incomes and high housing costs. There are accordingly three significant criteria for obtaining a housing allowance:

- high housing costs
- large household, particularly with children
- low income.

The housing allowance differs for small and large households. The National Housing Board publishes catalogs about housing allowances which present standard figures for the various household sizes.² The table for single, childless persons is reproduced as Table 1. The income of a single person may not be above 43,000 Swedish Crowns if he or she is to receive a housing allowance, even if the rent is very high. For a family with two children the situation is different as shown by the extract from the official table reproduced in Table 2.

TABLE 1
HOUSING ALLOWANCES PER MONTH FOR SINGLE, CHILDLESS PERSONS,
SWEDEN 1980.

| Qualifying annual income (Swedish Crowns) | Rent/housing cost (Swedish Crowns per month) | | | | | |
|--|--|-------------|-------------|-------------|-------------|---------------|
| | 525- 549 | 575- 599 | 625- 649 | 675- 699 | 725- 749 | 750 & over |
| 29,000 | 20 | 60 | 100 | 140 | 180 | 200 |
| 31,000 | | 35 | 75 | 115 | 155 | 175 |
| 33,000 | | | 50 | 90 | 130 | 150 |
| 35,000 | | | 25 | 65 | 105 | 125 |
| 37,000 | | | | 40 | 80 | 100 |
| 39,000 | | | | | 55 | 75 |
| 41,000 | | | | | 30 | 50 |
| 43,000 | | | | | | 25 |

Source: National Housing Board

TABLE 2
HOUSING ALLOWANCE PER MONTH FOR COUPLES WITH TWO CHILDREN
SWEDEN 1980

| Qualifying annual income (Swedish Crowns) | Rent/housing cost (Swedish Crowns per mon(h) | | | | | |
|--|--|--------------|-------------|-------------|---------------|-----------------|
| | 0-524 | 6 25- 649 | 775- 799 | 875- 899 | 1025- 1049 | 1 205 & over |
| 0 - 38,000 | 310 | 410 | 5 30 | 610 | 730 | 910 |
| 42,000 | 260 | 360 | 480 | 560 | 680 | 860 |
| 46,000 | 210 | 310 | 430 | 510 | 630 | 810 |
| 50,000 | 160 | 260 | 380 | 460 | 580 | 760 |
| 54,000 | 110 | 210 | 330 | 410 | 530 | 710 |
| 58,000 | 60 | 160 | 280 | 360 | 480 | 660 |
| 62,000 | | 88 | 208 | 288 | 408 | 588 |
| 66,000 | | | 128 | 208 | 328 | 508 |
| 70,000 | | | 48 | 128 | 248 | 428 |
| 74,000 | | | | 48 | 168 | 348 |
| 78,000 | | | | | 88 | 268 |
| 82,000 | | | | | | 1 88 |
| 86,000 | | | | | | 108 |
| 90,000 | | | | | | 28 |

National Housing Board.

The housing allowance system thus has a fairly limited significance for single persons and childless households, but extends to more than one-third of families with children. Table 3 shows the extent to which different types of household received housing allowances in May 1980.³

It is also of interest to see the economic significance of housing allowances for the recipients. Table 4 shows for households which received housing allowances both the mean housing cost (e.g. rent) and the mean allowance. In total, housing allowances covered a good third of the housing cost.

TABLE 3
HOUSING ALLOWANCES BY HOUSEHOLD COMPOSITION, SWEDEN 1980

| Type of household | Number of households with housing allowance | In relation to all households in Sweden |
|---------------------------------------|---|---|
| Households with one person | 65,153 | 6 % |
| Households without children | 73,475 | 3 % |
| Households with children of which: | 394,853 | 34 % |
| with 1 child | 103,024 | 25 % |
| with 2 children | 168,933 | 37 % |
| with >3 children | 95,896 | 54 % |
| All households | 472,009 | 14 % |

TABLE 4
AVERAGE RENT/HOUSING COSTS AND HOUSING ALLOWANCE, SWEDEN,
MAY 1980 (SWEDISH CROWNS).

| Type of household | Rent/housing costs (mean) | Housing allowance (mean) | Allowance in relation to costs |
|-----------------------------|---------------------------|--------------------------|--------------------------------|
| Households without children | 850 | 146 | 17 % |
| Households with children | 1,299 | 483 | 37 % |
| All households | 1,229 | 430 | 35 % |

The Temptation

Housing allowances are calculated on the basis of the applicant's statement of taxable income in the calendar year for which an allowance is requested. This means that the applicant must make a forecast. The recipient of an allowance must also submit a statement of property as recorded in his or her last income tax return, and of the size and type of household. A pessimistic forecast thus has certain beneficial effects for the applicant - *low income gives a high housing allowance*.

A similar statement of income and of changes in income must, in addition, be submitted to the social insurance offices by practically all income-earners in Sweden, since all must be registered with them. Here, however, the situation is the reverse of that for housing allowances - *high income gives a high sickness allowance*.

Consequently, there is a great temptation for a person to be considerably more pessimistic when estimating income as the basis for calculation of a housing allowance than as basis for sickness insurance. As these two income statements are based on somewhat different time frames - for housing allowances on income during a calendar year, and for sickness insurance on income during a twelve-month period - some people will consciously or unconsciously succumb to the temptation to report too low an income when applying for a housing allowance. They are also more likely to forget to report an *increase* than a *decrease* of income for adjustment of their housing allowance.

Control and its Legitimacy

Since statements of income both for housing allowance and sickness benefits are data-processed, a crime prevention eldorado exists. By linked processing of the data for housing allowances and for sickness insurance it is possible to identify households which have reported different incomes. But no eldorado is without limit. In the first place there is an administrative limitation. Whereas the income statements for sickness insurance are collected centrally for all citizens at the National Social Insurance Board, the housing allowances are administered by the local authorities. Each of Sweden's 277 local authorities thus has its own file with data of incomes for housing allowances. The second limitation is legal. To prevent the use of computers encroaching upon citizens' personal privacy, Sweden has fairly rigorous data legislation. Linked processing of files containing data submitted by citizens to different authorities for different purposes is therefore a delicate matter. On the other hand, it may be considered legitimate that authorities make

checks on economically important data submitted by citizens and the Government consequently gave permission for a trial of linked processing of data for this purpose. Of importance for crime prevention, however, is not only the particular methods used but also how citizens appraise the legitimacy of such measures. In 1979, therefore, the National Housing Board commissioned a public opinion poll of a nationally representative sample of 1000 persons aged 16 - 69 years. The responses were as follows:

1. 94 per cent thought it proper that local authorities should make these checks on statements of income.
2. 87 per cent of the recipients of household allowances (24 per cent of the sample were recipients of household allowances) thought it wholly or partly proper that such checks should be made.
3. 91 per cent thought that such checks had at least a fairly great significance for the scrupulousness with which people report changes of income to the local authorities.

The first year in which linked processing of the relevant data took place was 1979. These operations were extensively discussed in the press and other mass media. Consequently, many people had the opportunity to notify local authorities of any mistakes in their statements of income. Linked processing operations continued in 1980. The criterion adopted was that all households whose statement of annual income for housing allowances exceeded the statement made to the Social Insurance Office by at least 1000 Swedish Crowns were selected by the computer. These households then received a letter and were asked to state the reasons for the difference. (It should be mentioned that the probability of reporting too high an income to the Social Insurance Office is fairly low, since these statements of income are later compared with and corrected with respect to the annual income tax return).

Results of the Check

A large number of local authorities employ the services of a company, Kommun Data AB, which performs computer runs for them and which also performed the linked processing operations. As it appears from Table 5, a large majority of local authorities using Kommun Data AB's Computer Service System made such checks.¹¹ Practically all households with housing allowance have been checked, usually once in each year. The local authorities spread these checks over several points of time during the year, i.e. the first check comprised certain households selected at random, the second other households, until

TABLE 5
THE SCOPE OF THE CHECK

| | 1979 | 1980 |
|---|------|------|
| Local authorities (Swedish 'kommun' ¹) | | |
| Number of Swedish local authorities | 277 | 277 |
| Local authorities using the Computer Service System* | 248 | 251 |
| Local authorities which check their housing allowances by means of the Computer Service System | 218 | 225 |
| Percentage of checking local authorities in relation to all local authorities using the Computer Service System | 88 % | 90 % |

* Kommun Data AB

all households had been checked. The results are shown in Table 6.

Before discussing the results, it should be noted that the authorities had undertaken important preventive action without at the same time instituting a rigorous evaluation. The evaluation reported here was retrospective and was based on available data. However, the results are so striking that in all probability they would hold good even after thorough examination of the primary material. The tragedy of this type of subsequent analysis of secondary material lies rather in the losses of precision. For example, the preventive effect cannot be precisely defined, the costs of control in relation to the gain cannot be calculated and in particular, the effect of the data control on the local authorities' administrative routines cannot be determined. This missed opportunity for a more rigorous evaluation of results of great interest for preventive theory must, however, not be allowed to detract from the importance of the results actually obtained. These can be summarized as follows:

1 *The extent of this type of welfare criminality — 2.7 per cent in the first year and 1.2 per cent in the second- is considerably less than asserted in debates about economic crime or the extent of demoralization in Swedish society.* Some protagonists are unlikely to accept a basic assumption of a law-abiding society with limited mass economic criminality. They will undoubtedly maintain that most recipients of housing allowances are not so stupid as to get caught in the data controls. They would instead under-report their income to all the relevant bodies, i.e. they would be consistent in their errors.

2 *As far as can be judged, a preventive effect exists.* The frequency of fraud fell from 2.7 per cent in the first year to 1.2 per cent in the second. The real preventive effect may be rather higher as the check in the first year was discussed in the mass media and thus gave recipients of housing allowances a chance to notify wrong or out-dated statements of income before the check was made.

3 *After the opportunity structure was changed, the compliance among recipients of allowances increased.* The number of spontaneous reports of changed income increased considerably from the first to the second year. This lends support to the Marxist thesis that changes of attitude are conditional upon changes of realities, and contradicts the socio-psychological thesis that the attitude to crime must change before criminality can be reduced. But it should be emphasized that this result was obtained in a sphere where a large majority of recipients of allowances considered the controls to be legitimate. It is by no means certain that the same results would be obtained when the legitimacy of control was questioned.

4 *The number of persons with legitimate differences of income is much greater than the number with illegitimate.* During 1979 and 1980, 19 per cent of the households were found to have a difference of income in their statement of at least 1000 Swedish Crowns. Some of them had notified differences of income before the check, some had *de facto* differences which entitled them to housing allowance or sickness benefit, and only a minority (14 per cent in 1979 and 6 per cent in 1980) had reported wrong income figures. From the calculation made by some local authorities of reduction in housing allowances after the check, it is apparent that the local authorities make quite considerable gains through their improved administrative routines for dealing with housing allowances.

To sum up it may be said that the linked processing of data files opens up substantial and interesting probabilities of crime prevention. In this concrete case it is apparent that the great gains to be made lie in a direct change of the crime opportunity structure — namely that on the basis of a common income concept for sickness insurance and housing allowances, people submit a single statement and so avoid making mistakes or being subjected to too much pressure of temptation.

TABLE 6
RESULTS OF THE CHECKS IN 1979 AND 1980

| | 1979 | 1980 |
|---|---------|---------|
| Households with housing allowance | 512,644 | 472,009 |
| Such households in local authorities using the Computer Service System* | 496,040 | 462,000 |
| Households checked | 340,577 | 314,683 |
| Checked households as percentage of households registered in the Computer Service System | 69 % | 68 % |
| Households which reported an income at least 3,000 crowns a year too low | 64,710 | 58,487 |
| As a percent of checked households | 19% | 19% |
| Households which lost their allowance or received a reduced allowance because of the check | 9,179 | 3,649 |
| Percentage of such households in relation to checked households | 2.7% | 1.2% |
| Households registered in the Computer Service System which lost their allowance or received a reduced allowance because of spontaneously reported changes in income (June-December) | 30,238 | 52,753 |
| Percentage of such households in relation to all households registered in the Computer Service System | 6.1% | 11.4% |

* Kommun Data AB

Notes

1. Bostadsbidrag for December 1980 (Housing allowances for December 1980). National Housing Board, No 1981: 22. June 16, 1981.
2. Information published by the National Housing Board: Housing allowances 1981.
3. The figures of households with housing allowance are taken from a statistical investigation entitled 'Hushall med bostadsbidrag for maj 1980' (Households with housing allowance, May 1980). National Housing Board, Dec. 23, 1980. The figures for households, households with children, etc., have been estimated on the basis of the 1975 population and housing census and on changes in population since then.
4. Some of the figures are taken from "Utvardering av samkörning av kommunernas bostadsbidragsregister under bidragsåret 1979 med riksforsakringsverkets register over sjukpenninggrundande inkomst" (Evaluation of linked processing of local authorities' housing allowance files for 1979 with the National Social Insurance Board's file of sick-benefitcarrying income). National Housing Board (Dnf 99-1691 u) May 29, 1980; some directly from the National Housing Board and Kommun Data AB.