Abstract
The paper analyses the effect of a housing allowance programme on the rent paid by the assisted working-age low-income households. The analysed random sample consists of some 14,000 rental households, 22 per cent of which received allowance during the period 1994-2003. Two alternative methods are used to estimate the effect of the scheme. First, the effect is estimated without instruments using the selection on observable factors as a guide to the selection on unobservables. Second, the effect is estimated using the programme reform of 2002 as an instrument. Results from the first approach suggest that households with comparable levels of disposable income and similar dwelling and family characteristics, pay on average about 5 per cent more than they would pay without allowance. The other set of results indicates that the households affected by the reform experienced a further 3 percent increase in rents relative to those not affected. Also, the effect appears to be accounted for by new rental contracts, as the allowance effect turns out to be insignificant among long-term tenants.

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