

THE FUTURE OF HOUSING POLICY IN EUROPE

*Mark Stephens
Housing Research Group
University of Glasgow*

I'd like to thank you for inviting me to address this meeting. I am always struck when meeting colleagues from around the world how differently we think of housing policy. No matter how long one studies housing policies in different countries, it is difficult not to be influenced by one's own background and day-to-day experiences when interpreting policies in different countries.

First, I'd like to summarise the main argument in this lecture. Historically, social housing was used to tackle housing shortages. As these shortages were reduced the function of social housing became defined by access and affordability objectives. The balance between these objectives – the relative weight attached to each – is shaped by the social and economic context, as well as by housing policy itself. Its future depends on both these policies, housing policy and wider social and economic objectives. In looking to the future, there are many issues I could've addressed, there are, for example, questions about aging societies and the role of housing policy there, there are questions about immigration and housing policy that many countries will face and there are questions about climate change and the way in which housing policy may adapt to face that. But the one thing I'm going to focus on - what I perceive to be another important social or economic challenge to the housing system and that is what I think will be a growing theme which is growth in wealth-inequality and also the implications of wealth-inequality.

What is social housing?

So, let's start with I hope a fairly straightforward point, the subject of the talk, an attempt to define social housing. Here in this definition it is "...housing for which access rules are defined in favouring households that have difficulties in accessing accommodation".

Just looking at that definition we can see what a wide range of difficulties there are that people might encounter. To take just one example, there is a huge difference between people who have difficulty accessing housing, simply because they're at an early stage in the life-cycle, they may have large commitments to do with having children, but have not yet reached their full earnings potential. They may be at that early stage in their housing career when they need help in accessing

accommodation. But there will be other people who throughout their lives will never be able to access decent accommodation without assistance. So, social housing, if you like, is one response to what can be seen as a very diverse set of needs.

What is social housing for?

Another way of approaching the question is to ask: What is social housing for? And again if one takes an historic view of the development of social housing – and in particular social rented housing - we can identify these four objectives [tackling shortages, improving affordability, improving quality and providing a safety net]. They are not mutually exclusive - more than one can be pursued at the same time.

As I said, everywhere social housing was used to tackle housing shortages, primarily in the decades following the second World War, where, very demonstrably, there were more households than there were housing units available, there were also legacies of poor quality housing, especially in countries that had industrialized early and also in countries where urbanization was happening quite quickly.

Now, if you were to take one country where the objective of tackling shortage has been the most important objective – and I would say that would be in Germany, perhaps because of the acute state of housing in the 40's and 50's, but it clearly defined the way in which social housing was established in Germany. The defining feature was an indifference as to who provided the housing, so this was the country that encouraged most the private sector in providing rented housing on social terms. But crucially on time-limited social terms, which implied that Germany was placing less long-term importance to some of the other objectives.

Clearly, housing affordability is another objective implied in social housing, we can see that by the way in which it is priced, normally, or at least in principle, below the level that it would cost for similar housing accessed through the free market. Another objective, although it has more than one dimension, is the desire to improve the quality of housing. The first dimension of that is to improve the quality of housing consumption for households, in other words, for example to remove people from slum housing, into housing of a decent physical quality and also meeting certain space standards. But in other circumstances – and we might think of this perhaps in the future as well – it is to use social housing as a way of setting standards for the rest of the housing system, the private sector, to follow.

And finally, a growing role, at least in some countries, has been for social housing to provide a kind of safety net for marginal households, in another words, households who can only ever access market housing

precariously, so they have a high risk of homelessness, either through economic vulnerability or other kinds of social or personal vulnerabilities. Increasingly, at least in some countries, social housing has been used as a safety net for these groups.

How much social housing do we need?

One question to which there are clearly as many answers as there are countries is: How much social housing do we need? This bar chart takes a selection of countries with social rented sectors about a quarter of a century ago, around 1980. We can see that the different societies' responses to this question – how much social housing do we need? – were really quite different.

[Bar chart]

One observation we can make is that this has clearly nothing to do with general poverty in a country. In other words, some relatively wealthy countries have rather large social rented sectors, notably the Netherlands. But across this selection we see at least a significant importance attached to providing social housing. If I may just for a dramatic effect perhaps take advantage of my Scottish affiliation. If you took Scotland separately from the rest of Great Britain, around 1980, you would have found more than half of the Scottish population living in housing that was owned and managed by the public sector – mostly by local authorities. So Scotland was really more “East European” than a lot of Eastern Europe at the time. Consequently, it is sometimes said, that “Scotland is where Calvinism met communism”.

[Bar chart]

Now, if we move on, twenty years from 1980, around the year 2000, we can see that the picture had changed somewhat, but not in any systematic way. We see three countries in particular where the social rented sector shrank quite considerably between 1980 and around 2000. These countries were – taking it separately - West Germany, Great Britain and Slovenia. Now the prime reason for this in each of these countries was the design of housing policy. In Germany, I've already mentioned the nature of time-limited subsidies to private landlords with this housing passing to the market sector once subsidised loans have been repaid. In Slovenia and Great Britain it was due to the very deliberate sale of social rented housing to sitting tenants.

Elsewhere we see a rather different picture, with the social rented sector actually continuing to grow in some countries and relatively little change in others.

So there seems to be no common answer to the question: How much of social housing do we need?

How housing policy shapes social housing

Now, what I'd like to move on to is to really think about: How does the social rented sector – how does housing policy, if you like – shape the wider housing system? Again, we can see how large the social rented sector is, but we also know that the nature of these social rented sectors is very different between various countries. So, I have tried to identify some of the policy related aspects that shape the nature of the social rented sector.

The first of these is: “who owns it?” We know that social rented housing can be owned by a variety of landlords, we have seen in Germany, at one end of the spectrum, often it was owned by private landlords. At the other end of the sector we have former communist countries and also Great Britain, where it was primarily owned by the state – or the local state – and in between we see various models including municipal housing companies and housing associations. So we have a great mixture of ownership-types and the extent to which the housing can be used to create pure profit or to create surpluses that can't be distributed so easily. And I think that this to an extent defines the motivation - why the housing is there.

Related to this is the question: “Who manages it?” To an extent this defines the culture of the housing, is it managed in a highly paternalistic way, with tenants expected to be grateful for what they receive, accepting relatively low standards of service, or do we, as in Denmark, have a much stronger tradition of tenant participation or tenants' control? These things make huge differences to the kind of cultures associated with social rented housing.

Crucially, the last two questions are, in reverse order: “How is it allocated?” In the words, it defines who consumes the housing and also, how it's priced, which defines the distribution.

These are, I think, probably the two most important elements of the four. Consumption is determined by the allocation system. Who is getting the housing plays a large part in defining its purpose. One of the interesting developments is the shift in the Netherlands, over the past twelve years or so, towards the so-called “Choice-based Lettings” whereby potential tenants actually actively apply for particular houses in an attempt to widen choice. If it is making a difference this is of huge importance because it will determine who gets what. It must mean that

some groups are doing better than others in terms of accessing the most popular housing. Otherwise, there would be no point in introducing it.

And finally, “how is it priced?” This defines to an extent an internal distribution between tenants. Most social rented housing operates on some form of cost-rental principle. But to what extent is rent pooling being used and to what extent are people benefiting from living in older less debt-ridden housing compared to people living in higher-debt, newer housing? Together allocations and pricing raise questions about intra-tenure polarization, as well as inter-tenure polarization.

It’s not just policy that shapes social housing

The next part of my argument is that it isn’t just housing policy, or policy, that shapes the nature of social rented housing. Policy, of course, is important, I don’t want to devalue it, but I also think that to understand how different systems operate, we also need to look at the wider social and economic context that shapes the system. Here I identify these two parts of the wider system of being of great importance. The first is labour markets.

Here we see - if we look at indicators from across Europe – very different outcomes. It is not just about unemployment, very important though unemployment is, it is also about the nature of employment. We have some countries that have combined relatively low levels of unemployment with relatively high levels of employment but nevertheless have very polarized labour markets in terms of work distribution. So in both the Netherlands and the United Kingdom we see these features of relatively low unemployment, high levels of employment, but we also see a division between so-called “two earner households” and “no earner households”. Both these countries have a rather alarming proportion of households with no one of working age in employment.

We see, historically, quite different approaches to, for example, female employment between Germany, where the so-called “male-breadwinner” model of the labour market was promoted, compared with, say, Sweden, where for many decades the importance of high levels of employment in both sexes has been promoted.

So, all these things about distribution of employment are important and we see very different patterns between different European countries, but also we know that these labour markets are generating quite different levels of inequality.

What can we attribute different levels of inequality to?

One of the things that I think is important is the extent to which a wage-bargaining system has been collectivized and centralized, or decollectivized and decentralized. This is one of the key institutional

differences between countries and also one of the key changes that have occurred in a number of countries and may dictate or shape future patterns of inequality.

I have also identified the social security system as being of crucial importance. Again, historically we've had very different kinds of social security systems established throughout Europe, intimately linked with the kind of labour market that we're operating. So the extent to which social security performs the role of mitigating some of the inequalities that are generated through the labour market also varies. One of the important differences is between systems that rely most on social insurance and those that depend more on social assistance. Social assistance generally defined as being low levels of benefit being payed on a means tested basis – a kind of safety net. Social insurance systems tend to provide higher “replacement ratios” - how do out-of-work incomes compare with in-work incomes? And again you get dramatically different results from different European countries.

There are other dimensions to this labour market and social security issues that I'll come to a little bit later in this talk.

So far, we have looked a bit about housing policy and we have looked at – in very broad terms – about the wider social and economic system. How do these two come together in the social rented sector?

Affordability and Safety Net functions

[Picture]

This is an attempt, using data from the late 1990s, which I managed to get for four countries that shows the distribution of social rented housing across the income range, so at the bottom we see 1-10, the income deciles of the population with 1 being the lowest or the poorest people and 10 being the richest 10 per cent of the population. Now, we know that the size of the social rented sector varies greatly between these countries; around 20 per cent in France and Britain, around 33 per cent in the Netherlands and possibly as low as around 6 per cent now in Germany.

So what we have tried to do is to standardize, or take into account the size of these social rented sectors and ask the question: “if the population was evenly spread through these tenures, how many people would live in them?” If the social rented sector is 20 per cent of this housing stock, then if it was evenly distributed, then we'd have 20 per cent of each income decile living in it. So, 1 is an even distribution, anything above 1 means that there are disproportionate numbers of people from that income decile living in the social rented sector. Anything below it suggests that those people are under-represented in the system.

We have some quite interesting outcomes here, illustrating very vividly the extent to which the safety net objective for social housing in

Britain has come to dominate lettings in our country. We also see for Britain how quickly representation of income deciles in the social rented sector falls as income rises.

In Germany and the Netherlands we see the same pattern, more or less, but it's much less severe. We have over-representation of the lower income groups as one might expect and the use of social rented housing declines rather more gradually as incomes rise. On the other hand, in France (the bottom line) we see no over-representation at all in the lowest income decile and that is consistent with accounts from France about the reluctance of some of the social landlords to house the lowest income groups. So we don't see much of an over-representation, really, among the next few income deciles and then consumption fades away rather slowly.

One way I'd like to describe this diagram is to think of social housing as if it were the distribution of a social security benefit. In the case of Great Britain, you could say it's a severely means tested social security benefit; most of it goes to the poorest people, then it's withdrawn very rapidly as incomes rise.

In Germany and in the Netherlands it looks as it's a bit less severely means tested social security benefit. In France, in contrast, it looks almost like a flat rate benefit with some kind of income ceiling on it, drawn relatively high up the income scale.

Tenure polarization

A slightly different representation is gained through looking at tenure polarization or incomes through tenure polarization to really establish, again, the nature of the social rented sector. This is not just about the representation of poor households in the social rented sector, it's also how relatively poor people are. It is for this reason that from a British perspective we see a really quite astonishing result.

So we have three bars for each of the countries that I have got data for here. On the left hand side is the incomes of people living in the social rented sector, expressed as a percentage of the average. The average is a hundred; anything less than a hundred means that they are relatively poor. In the second column we see the owner-occupiers and in the third column we see the incomes of the private renters.

So, I guess it's unsurprising that everywhere the owner-occupiers are considerably better off than the average. The rather high level in Sweden is obtained because it doesn't include the owners in cooperatives, just the owners of family housing. But amongst social renters we see that incomes as a percentage of the average tend to be in the sort of 70-75 percentage range in most countries, but in Britain it's actually just below half. So in Britain – if we're going to be European about it, for every euro

that an average household has, someone in the social rented sector has less than 50 cents. The relative level in the other countries is between 70 and 75 cents.

So this is reflecting not only the concentrations of poor people in the social rented sector, but also the relative position of poor people. So in Britain we're seeing a combination of high concentrations of poor people in the social rented sector, plus high levels of inequality in Britain. In Sweden you're seeing a rather different income pattern as we are indeed in France and Germany.

What does this mean for reform?

Going back to housing policy, what does this mean for changing housing policy? Well, it illustrates very clearly one thing that academic researchers call "path dependency". It suggests that once a system is going in a particular direction; once its institutions and wider social and economic contexts are established, it becomes much more difficult to change track. We can't for example in Britain say: "We'd quite like to have a Swedish system instead and we can change a few institutional aspects of our housing policy to make it look a bit more like Sweden" and the system will fall into a place. Of course that won't work because you're not tackling the underlying poverty of the lower income groups.

So, it's actually quite difficult to change the nature of housing systems by housing policy alone and certainly not in a short period of time. So, some of the policy-transfer ideas that float around have to be treated with a great caution, because they may well not get the results we expect once they are transferred to another country.

The Challenge of Income Inequality

Now, looking to the future, I'd like to look at two challenges. These are first, income inequality, and secondly, wealth inequality.

It seems to me that probably the main driver behind the nature of social rented housing systems in the future will be not what is actually going on in housing policy, but what is going on in the wider labour market and in the social security system. And I think we know there are pressures, or at least perceived pressures for changes in labour markets and in social security systems and some of that arises from so-called common pressures. In a European context, certainly the logic of European integration and of the euro in particular is to have what economists call more flexible labour markets which is usually defined as meaning a relative ease of "hiring and firing", as well as a decentralised wage-bargaining system.

We have seen how such institutional changes in the English-speaking countries contributed to widening inequality especially in the

80s and 90s. We also see today how some European countries, notably Germany, are responding to this logic by proposing labour market reforms. Why should Germany be doing this? Because of persistently high unemployment that has been especially painful in the country that was for decades the economic driver of Western Europe, the land of the “economic miracle”.

We might hope for social security systems to continue to reduce inequalities produced by the labour market. But here, too, the idea that social insurance contributions – or “payroll taxes” – have begun to price people out of work has been promoted by influential organisation such as the OECD. Moreover, high “replacement ratios” can be interpreted as providing a disincentive for the unemployed to seek work. Again we see, Germany responding to this with proposals to reduce the duration of unemployment benefit entitlement.

What is being played out in Germany – with much public protest - is the key economic debate of the past decade. The question is: “is there a trade-off between employment and inequality?” Or as the American economist Paul Krugman famously said: “Many people on both sides of the Atlantic believe that the United States has achieved low unemployment by a sort of devil’s bargain, whose price is soaring inequality and growing poverty.”

Put starkly, the role of the social rented sector in Europe – the extent to which it plays a safety net function or a wider affordability function – will depend in large part on the outcome of this debate, and on the ability of governments to modernise social security systems to continue to meet objectives of redistribution without creating unemployment.

Can social housing respond to income inequality? There are certainly ways in which it might because one of the key trends in social rented sectors is that surpluses have built up – not everywhere and we know the problem of low demand is found in parts of several countries – despite reductions in subsidy. These subsidies could be used to benefit one or more of many groups including tenants, future tenants, government, landlords, or housing managers. Mechanisms that enhance sector-wide solidarity could be used to promote equitable redistribution between existing tenants and perhaps for future tenants. So-called “revolving door” mechanisms are implied in an *ad hoc* way by mergers between housing associations in the Netherlands and in a more organised way by the building funds in Denmark and by the Housing Fund in Finland.

The challenge of Wealth Inequality

One of the most notable trends of recent years has been the rise in real house prices in many European countries [bar chart]. Now, we know from the experience of the early 1990s that house prices can go down as well as up. But there are good reasons to expect house prices to rise generally – for example, growing incomes, and restricted land supply, especially around metropolitan cities. Even if there is a correction in the market, we may be seeing a new area of inequality opening up.

Wealth inequality has greater importance today than in the past because housing assets have become more liquid – or more easily converted into cash without the owner having to sell the property. The extent to which this occurs does vary between countries, but it is a clear reality in some countries and a distinct possibility in many others.

If combined with greater “marketisation” in key public services – like pensions, health or education – then greater wealth inequality could have a very great impact on what sociologists call “life chances”.

Can social housing be used to tackle wealth inequality? Again there are possibilities because in parts of this sector non-profit landlords are often sitting on quite a lot of equity.

We have seen how this equity has been spread by sales to tenants in Great Britain and in some former communist countries. But this is not the only way. Tenants could be given shares in housing companies, so given part ownership – a stronger version of right of occupancy housing. This mechanism does not provide an easy answer – for equity to mean anything tenants must be able to enjoy rising equity in a company, and that means that they must be able to sell their equity, which implies a slow privatisation by another route. Alternatively, tenants might be given dividends or *quasi dividends*, which could have a loyalty element which would be justified as a longer history of rental payment implies a greater contribution to the long-term value of the landlord. Such loyalty-linked dividends could provide a way of encouraging tenants to remain in the sector by mimicking some of the benefits of home-ownership – what economists call imputed rental income as well as capital gains.

Conclusion

These are tentative thoughts. But I have been asked to speculate about the future of social housing. Social housing grew up to meet housing needs. But since then society has changed and if social housing is to have a role, it must evolve.

More detailed information on social rented sectors in western Europe can be found in:

Stephens, M, Burns, N & Mackay, L (2002) *Social Market or Safety Net? British Social Rented Housing in a European Context*, Bristol: Policy Press (ISBN 1-86134-387-6)

<http://www.bris.ac.uk/Publications/TPP/tpp.htm>