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# Remaking Housing Policy

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An International Study

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## Chapter 8

# The distribution and affordability of housing

### NOTE

I have inserted a few charts relating to housing in Canada and similar OECD nations to supplement the information provided in this chapter.

— David Hulchanski, January 2020

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# The distribution and affordability of housing

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The aims of this chapter are to review the evidence on the distribution of housing between different social, economic and demographic groups and the factors that impact on this, as well as the strategies that governments can use to influence this. Many governments intervene in housing markets in order to change the distribution of benefits in the pursuit of a concept of social justice. Housing not only reflects the existing distribution of wealth and income, but serves as a mechanism to generate and reinforce existing inequalities because of the differences in housing costs and the impact of rising house prices.

The chapter starts with a review of the factors that influence the distribution of housing such as the overall distribution of income and wealth in a country. The way that these wider factors are translated into housing outcomes is examined by using the concept of ‘affordability’ to assess the kind of housing that different groups are able to access. The chapter then examines the factors that underlie government intervention in this area such as concepts of social justice and ‘fairness’ and ‘equality’ and their meaning and impact in the housing sphere. Government attempts to alter this distribution through subsidies and taxation are described and evaluated and conclusions drawn on the impact of current neoliberal trends.

## The distribution of income and wealth

Where housing is accessed primarily through market mechanisms, the total amount and the distribution of income and wealth in the society is bound to have a profound influence on the distribution of housing. Also, because housing is such an important element of personal wealth and one of the biggest items of household expenditure, the distribution of housing also influences the distribution of income and wealth.

Governments are usually concerned with the overall amount of income in the society as measured by the gross domestic product (GDP), and this will influence the total amount of income that can be devoted to housing (see Table 8.1). Countries also vary in the proportion of national income that is spent on housing which may impact positively on housing standards but may have a negative effect on the prosperity of other parts of the economy. Housing may also play a positive part in influencing the national income as it may provide the infrastructure to enable the labour market to operate well to support economic activity.

However, here we are primarily interested in the distribution of the overall national income between individuals as this will influence the access that different people will have to elements of the housing market and their purchasing power within it. There are many ways of measuring the distribution of income and of making comparisons between countries.

Table 8.1 Gini coefficients for six case study countries, 2015

	<i>Gini coefficient</i>	<i>GDP per head \$ 2016</i>
China	0.465	6,894
Argentina	0.426 (for 2014)	20,451
USA	0.39	57,591
UK	0.36	42,651
Australia	0.337	47,769
Sweden	0.274	49,075

Source: OECD, World Data Bank, Statista **See next page, an insert with Gini coefficient update for more countries, including Canada.**

The most widely used measure is the Gini coefficient. However, as Atkinson (2015) points out this provides a single-figure, summary measure of inequality of incomes that involves weighting between people in different places in the distribution and so is inherently subjective in the sense that the use of different distributional weightings would give a different figure. Nevertheless, the Gini coefficient is widely used in comparisons between countries and over time.

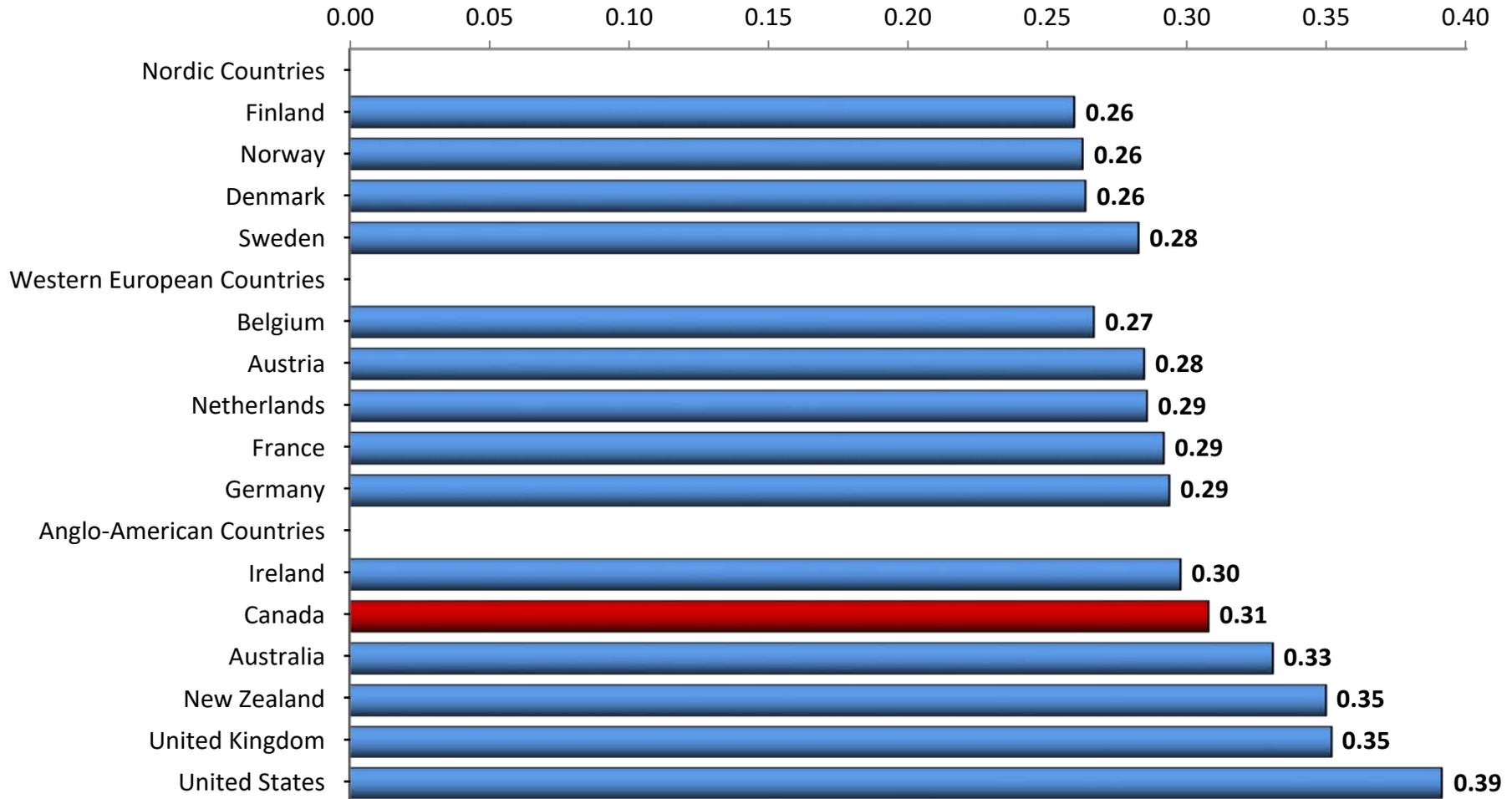
Table 8.1 gives the coefficients for the six countries used as examples in this book, and it is evident that there is a wide variation. When examined over time, in the UK and the USA there was a trend of a more egalitarian distribution, as shown by a falling coefficient, from the 1940s to the 1980s, but then a growing disparity of incomes that has been called the ‘inequality turn’ from the 1980s to the 1990s, although it has been relatively stable since. Because of the rather arbitrary nature of the Gini coefficient, the other widely used method of measuring inequality is to compare the share of different parts of the distribution. For example, in the UK the share of the top 1 per cent of earners was 19 per cent in 1919, falling to 6 per cent in 1979 and since has more than doubled. Brown (2017, p. 5) concludes that,

What we are talking about in fact is a marked and increasing imbalance between the contributions that various groups and individuals are making to society, on the one hand, and the economic and other benefits they derive from it, on the other.

The changing pattern reflects the changing nature of the labour market as well as the differences in returns from labour and capital (Piketty, 2014). The general picture in the UK and other globalised countries is a distention of the labour market with a large increase in incomes of the highest section with a growing lower end and a middle that blurs the difference between skilled manual and middle-class jobs.

The distribution of wealth has also become more unequal in many countries (Brown, 2017). Piketty (2014) shows how a number of mechanisms, including the increased return to capital rather than labour have meant that the top 1 per cent have increased their share of total capital (for a review of the impact of Piketty’s analysis on housing, see Maclennan and Miao, 2017). This phenomenon has been labelled as ‘rentier capitalism’. Standing (2017, pp. 4–5) defines a rentier as ‘someone who gains income from possession of assets rather than from labour’. A rentier state ‘has institutions and policies that favour the interests of rentiers’ and a rentier economy is ‘one that receives a large share of income in the form of rent’.

# Gini Coefficient for Fifteen OECD Countries in Three Groups, 2015/2016



New Zealand refers to 2014. **The Gini coefficient** takes values between 0 for a perfectly equal income distribution where every person has the same income, and 1 which refers to a situation of maximum inequality where all income goes to one person. OECD average = 0.30. Source: OECD (2018) <https://data.oecd.org/>

The precise changes in income and wealth vary between countries depending on their unique economies, demographics and history. But, does inequality matter? There are two types of answers to this question. The first type relates to political ideologies and the impact on the wider society which we will cover in the next section. The second type considers the impact of inequality on specific factors such as our interest here in the housing situation, and we will focus on this in a later section.

## **Concepts of social justice**

There are a variety of views on the desirability of different distributions of income and wealth that are embedded in political philosophies and set the context for government intervention in general and in housing in particular. A common distinction is between a concern with either equality of opportunity or equality of outcome. Equality of opportunity focuses on evening out the opportunities that individuals have to make their way in life and tends to accept that different abilities will result in different actual outcomes. These differences in outcome are held to be a key motivational element for individual effort and achievement. The major problem with a focus on equality of opportunity is that it is impossible to sustain in practice. To take a hypothetical example, the first participants in the housing market may be equal in their opportunities, but once they achieve unequal outcomes these will be transmitted to future generations through gifts and inheritances and the succeeding entrants will not start out equal. Countries with most unequal distributions of income and wealth tend to have less social mobility (OECD, 2008). As Deaton (2013, p. 107 quoted in Brown, 2017) argues: ‘Even if we believe that equality of opportunity is what we want, and we don’t care about inequality of outcomes, the two tend to go together, which suggests that inequality itself is a barrier to equal opportunity’. Atkinson (2015) points out that a focus entirely on equality of opportunity, which is politically popular and the general neoliberal position, ignores the fact that outcomes matter as well, both for the life chances of households today and over time as inequalities of outcome will result in unequal opportunities in future generations.

Therefore, equality of outcome is necessary to achieve equality of opportunity in the long term, because it is possible to transmit benefits between generations as happens in all countries through the transmission of housing wealth. The position is further worsened when the gains to capital through increases in house prices outrun increases in earnings. Disadvantage can then become entrenched and cumulative. This situation is further complicated in housing because of its nature as, at least in part a positional good (Hirsch, 1977). For example, the first owner-occupiers in say the 1930s were able to enjoy the status of a small elite and the use of a house that brought the affordances of suburban living with low densities and green space nearby. Following owner-occupiers do not get these same advantages as they are part of a larger number, and so the status is less, and the advantages of the suburban location have been devalued through a degraded popular use. The first owners see the affordances of their ownership also degrading as it becomes more popular, and so it is not surprising that they attempt to protect their position through nimbysm and political choices to restrict housing output and sustain house price increases. The newer entrants to owner-occupation can never gain the benefits that the first entrants did, because the nature of the good has been changed by its popularity. This analysis is reinforced when house prices increase faster than incomes, so that succeeding cohorts find it more difficult to access the tenure and more expensive if they manage to do this. Concerns about generational divides

in housing consumption need to be seen through this lens as they are rooted in the maturation of owner-occupation and its positional status.

A concern with equality of outcomes will also accept the importance of equality of opportunity but will also focus on the eventual outcomes. This concern can be divided into two categories. The first is a focus on the situation of the poorest. In this category, the issue is poverty and the incomes of those on the poverty line, however this is defined, and whether it is absolute or relative. Poverty can be defined in terms of a state benefit level or an absolute 'basket of goods', i.e. the amount required to sustain a given level of consumption of goods deemed to be necessary, or relative to the incomes of others. In this last method, the poverty level can be set as a given proportion of the mean or median income.

The second major category is a focus on the whole of the income spectrum in a concern with inequality in general. Life chances are dependent both on the absolute level of income in a society and also the relative level. The absolute level will have an impact on the possibility of the lowest-income groups accessing the necessities of life, amongst which is adequate housing. It can be argued that the greater the distance between rich and poor the more likely there is to be poverty. But there is also a strong argument for a focus on inequality and relative poverty. Many goods are positional goods in that their importance rests in the identity and status and the relative consumption benefits that they give to consumers. As we have argued throughout this book, housing is one example of a positional good, in that relative consumption is important in public display of low status leading to identity problems and an inability to lead a 'normal' lifestyle as well as mediating access to a number of private and public facilities including employment, education and health care and so on.

Atkinson (2015) argues that high levels of inequality (although this is not defined) can lead to a lack of social cohesion in a society, and he cites the work of Wilkinson and Pickett (2010) who show that inequality leads to increased social problems such as crime, obesity, poor health, teenage pregnancy and many other problems that have a social gradient within societies, that is they are more prevalent among people at the lower ends of the income scale. They argue that inequality 'gets under the skin' in influencing self-esteem and identity and so leads to the presence of the most problematic social element of shame which has large consequences on mental health and general social functioning. Atkinson (2015) also quotes the IMF who argue that inequality reduces economic growth because of the disincentive effects on lower-income people. Brown (2017) quotes a number of IMF and OECD analyses that show that there is an inverse relationship between the income share accruing to the top 20 per cent and economic growth. Lower inequality is strongly related to faster and more durable economic growth and redistributive efforts from governments have little negative impacts on growth. This is despite the justification often used for inequality that it provides the incentives to high-income individuals that are the drivers of growth. Rather, the extent of inequality has been a major contributor to the 'secular stagnation' that has engulfed the UK and many other countries since the 2008 Global Financial Crisis.

Brown (2017) outlines a number of reasons for the increase in inequality in many (particularly neoliberal) countries. He divides them into two categories of structural causes that are usually wider than individual countries and institutional factors that are dependent on the political and societal choices made by governments. The structural causes include: globalisation, skill-based technological change, changes in the organisation of work, changes in household structures, winner-take-all markets and the inherent nature of capitalism. The institutional factors include: neoliberal government policies, the changing role of labour market institutions, financialisation and rent seeking and government macro-economic

policies. There is not the space here to discuss each of these in the depth they deserve. There are two general points we can draw for our present task. The first is the general structural context that surrounds housing policies and the constraints this puts on the capacity of individual governments to meet their own objectives. However, individual governments do have some scope for choice, and it is clear that neoliberal governments have chosen to adopt and to reinforce the wider changes. The differences in the choices made and the reactions to wider forces are likely to lead to different housing regimes that will vary according to the definitions of social justice adopted by governments and the importance they give to them.

### ***Housing and income inequality***

A household's income will influence their ability to access housing. Obviously, their wealth is also important, and this will be considered in the next section. The income will be a product of savings, access to funds from other parties (such as parents or other family members), subsidies and income from employment to pay rent or repay a mortgage. As housing is such an expensive good when compared with income, most people need to access borrowing through a mortgage, at least at some time in their housing pathway. Therefore, the policies and practices of lending institutions can play a key role in influencing access. As outlined in Chapter 4, governments make the rules under which lending institutions operate, and this regulation is a key element in the armoury used by some governments to influence outcomes in the housing market.

A common concept in the analysis of housing outcomes is that of affordability which can be defined in a number of ways (see Leishman and Rowley, 2012, for a review). The concept of affordability is here taken to be the ability of a certain household to be able to meet their housing costs, but the concept has been used in many ways. It is often used in relation to the difficulties of access that certain groups may have to housing of their choice. Commonly, this has meant the difficulties of access to owner-occupation. Also, the term 'affordable' is often used in relation to particular forms of housing that are below market price such as subsidised public or social housing. In the UK, it is specifically used to denote housing provided by private developers at below market prices as part of their planning obligations for new housing developments. However, our definition here is more specific and is related particularly to the ability to pay for housing.

Using our concept here, perhaps the most common national-level indicator of affordability is to compare average house prices with average earnings. This method can be useful in charting changes over time and highlighting differences between countries, but the focus on averages could hide disparities between different income and other groups in the society. To overcome this problem, Meen et al. (2005) have suggested that the focus should be on the comparison between lower-quartile owner-occupied house prices and lower-quartile household earnings as an indicator that is more useful in showing affordability problems. However, the focus on house prices ignore tenures other than owner-occupation and is not an accurate predictor of housing costs as these may be influenced by other factors such as the level of interest rates. Therefore, a more accurate yardstick is to measure housing outgoings as a proportion of income. Some countries use a figure such as 30 per cent as a maximum for housing to be affordable to a household, and this can be the threshold for subsidy payments. The problem with this measure is that a given percentage is arbitrary and does differ between countries. Also, it fails to take account of differences in income. Thirty

per cent of a low income can be problematic to live on, but the same proportion of a high income may still leave enough for a lavish lifestyle.

An analysis of affordability can be made on a national level, but it is also common to make comparisons for a specific location such as a city or region. Average house prices are compared with average incomes to give an indicator of affordability. The comparison can be varied so that, for example, the lowest decile of incomes is compared with the lowest deciles of housing costs. This can give a clearer view of the possibility of different income groups being able to afford housing.

However it is done, the comparison of incomes to housing costs is essentially arbitrary because there is no shared understanding of what percentage of income is affordable. It will vary between people of different income levels, as mentioned earlier, but also depends on the length of time a high level is sustained. For example, a young professional couple at the start of their careers may decide a high level is sustainable for a few years on the understanding that their incomes will increase and housing costs will decline over time in real terms with inflation.

Some of these problems can be overcome by using the residual income approach. Here housing is said to be unaffordable if the income after costs is lower than the set poverty level. This measure allows for the differences in income, but its value is dependent on the utility of the poverty level and how this is defined and measured. If the poverty level is not enough for people to live on, then the residual is not sufficient and so would need to be revised. Therefore, the measure is still essentially arbitrary and will vary between countries unless the residual is compared to the cost of a defined 'basket of goods' that could be constituted similarly across different countries and may overcome problems of different poverty lines. But even here there needs to be universal agreement on the appropriate 'basket of goods' that would cope with differences in consumption patterns between countries. It will also vary between the quality of housing chosen which will be reflected in its cost.

A further issue is the differences in household composition that could impact on the need for housing space and the household income. The point is that households are not the same in their need for space and their capacity to earn income even if they are of the same size.

All definitions of affordability outlined above face two intractable problems. The first is that they pay no attention to the quality of housing being paid for. A dwelling may be affordable, but how does it compare to minimum societal requirements or more general quality judgements? So, change in housing affordability may mask changes in housing quality. The second problem is the lack of a focus on the strategies employed by households in relation to their housing costs and their housing pathway in general. Households may choose a low housing quality and cost in order to maximise expenditure on other requirements such as food or clothing. Others may choose to pay higher housing costs because it provides access to good schools or provides a better context for family life. To avoid these problems one is left with a complex definition of affordability as put forward by Stone (2006, p. 151): 'an expression of the social and material experiences of people, constituted as households, in relation to their individual housing situations'. However, this definition is difficult to operationalise and takes away a focus on housing costs.

Affordability may be defined in different ways in political discourse. For example, in the UK and in many other countries, there is said currently to be an affordability problem for young people. What is meant by this though is the difficulty that many first-time buyers are having in accessing the tenure, even if they are adequately housed in the private rented sector at a rent that is equivalent to what they would pay to service a mortgage. In this case, it

is more accurate to label the problem as one of access rather than affordability. The problem can only really be defined as an affordability issue if the costs are related to what people aspire to, or what others think they deserve, or to what they believe is fair. In many countries, such as the UK, there are cultural and financial biases towards owner-occupation, and many young people want to follow their parents who they have seen benefit from this situation. So, the problem of affordability in political discourse may not be necessarily focused on the poorest sections of the population, but may relate to any group that are perceived to have a problem accessing the housing that they and the government see as deserving. This means that government attempts to deal with problems of affordability may be focused on particular groups, particularly those on whom they may rely for political support.

Affordability issues may have a profound impact on the lives of individual households. At the extreme they may result in the loss of a dwelling and homelessness if households are unable to keep up their rent or mortgage payments. Another result could be the lack of other vital necessities such as food or clothing if housing costs take up a large proportion of disposable income. In addition, affordability problems may impact on a housing pathway at a later stage. For example, a young couple unable to afford their mortgage payments may have to remain in renting for their whole housing pathway and may not accrue wealth to fund their care in old age. Difficulty in meeting housing costs may have an impact on a person's enjoyment of their house. One of the constituents of a home is the feeling of security and lack of worry, and this is unlikely to obtain when there are concerns about the difficulties in paying housing costs and the implications of any default in payment.

The income of a household (whether an individual or a number of people such as a family or other group) is a major factor in their ability to afford housing and the quality and type of housing that they can access. In the owner-occupied sector the policies and practices of banks and building societies are also important in translating income into the capital required to purchase a house. These may vary over time and reflect government financial regulation as well as country-specific institutional factors and views of the current and future state of the economy. General interest rates will also impact on the cost of a loan or mortgage and the different forms of these were covered in Chapter 4. Governments are crucial in structuring the financial system for housing, as was discussed in Chapter 4, but they also may want to intervene to improve affordability for all or for particular social or economic groups. The provision of subsidy is one way that they can do this, and we will turn to this later.

When purchasing a dwelling, the wealth of a household may also be important, and it is to this that we now turn.

## **Housing and wealth**

In many countries wealth is distributed more unequally than incomes (for a review, see Brown, 2017). There is a reciprocal relationship between housing and wealth. Wealth can provide access to housing, with most first-time buyer households in the UK now receiving gifts from parents that enable them to access owner-occupation. This of course provides a mechanism by which existing inequalities in wealth are reproduced, as households without this family wealth may not be able to access the tenure or to buy more expensive property and so build up wealth. Therefore, wealth of the individual or family is both an important factor in influencing housing outcomes, but housing itself is also an important constituent of wealth. It is often the personal wealth accrued through housing that is used to provide

a stepping stone to that wealth for a subsequent generation and so reinforcing inequalities, especially if the greater returns to wealth than to labour identified by Piketty (2014) are taken into account. The effect of this is to create intergenerational inequalities that are at the heart of many affordability concerns today. If the returns on wealth generated through housing are greater than those from employment, then older people are going to be increasingly sitting on an asset that their children are not going to be able to afford to purchase without their help. Then if those older people are wanting to hold on to that asset, partly to enjoy the utility of their possible longstanding home, but also to help fund their own old age through equity release as public care and health services are removed through ‘austerity’, then the transfer of wealth across the generations is not going to be simple. In these circumstances, wealth may not be transferred but consumed, or it may skip a generation as people are living longer. As a result, many young people may not be able to enjoy the access to owner-occupation and the wealth accumulation that their parents did. Therefore, intergenerational inequity is a result of the playing out of the neoliberal housing ideology rather than the greed of an older generation as it is sometimes presented in the media and political debate.

Inequalities in wealth may have an important influence on housing outcomes as well as the reproduction of inequalities across generations. Because of its high cost, the ownership of a house is the greatest constituent of personal wealth for many people and in many societies. Therefore, governments may want to influence this. The accrual of housing wealth raises important ethical and political issues that often conflict. It is where basic principles of the rights of property ownership clash with concerns about fairness and inequality. For example, many politicians will argue that a family has the right to look after its own and every parent the right to help their children by passing on an inheritance. But of course, doing this exacerbates inequalities of both opportunity and outcome (Maxton and Randers, 2016). Housing as a major constituent of personal wealth is at the crux of this issue. In addition, households may want to accumulate wealth in their houses to see them through times of lower income such as old age and many governments have encouraged this process through ideas of asset-based welfare. But again, this will promote inequalities especially as many households will either not have access to this as they are renters, or own assets that do not appreciate at the same rate as others or at all. Therefore, it is no surprise that questions of housing wealth are hotly disputed and are at the heart of different political ideologies and different housing regimes.

## **Government intervention**

Affordability problems may receive a lot of attention from the media and may impact on groups that governments and other political parties may depend on for political support. The example of intergenerational equity was mentioned earlier as one particular problem for governments as many young people have not had the access to owner-occupation that their parents did. In addition, governments may be persuaded to intervene on the basis of political philosophies that contain views on desirable levels of inequality in income and wealth and its reproduction between generations. As a consequence, affordability issues may loom large in the perception of many governments and intervention be considered important.

Interventions can be split between those that help functioning of the housing market, that is those aimed at ‘making the market’ and overcoming some of the problems identified in Chapter 4 and those aimed at achieving distributional goals. The latter may be

divided into those aimed at housing outcomes and those aimed at wider distributional issues and at the wider economy, such as fostering economic growth or acting as counter-cyclical mechanisms.

The rationale for government intervention in affordability may differ. One element may be electoral calculation if support is required from a particular affected group. But the reasons may also relate to political philosophies and their inherent concern about issues such as inequality and concepts such as fairness. In a market housing system, it is likely that any inequalities of income and wealth will be reflected in housing outcomes and that, because of its high cost and its increase in exchange value it will be a major mechanism for the reproduction, sustenance and perhaps exacerbation of existing inequalities. Of course, any government concerned about the extent of inequality could intervene more directly through general taxation and benefits policies as well as employment and economic policies to reduce inequality in incomes. It could be expected that such interventions would have an impact on the capacity of households to afford housing and so obviate the need for direct housing intervention. However, governments may perceive problems with the direct approach, perhaps because of its impact on work incentives or on beliefs about independence or *laissez-faire* in the economic field and so tackle inequalities in housing more specifically by focusing on the housing system itself. 'Social welfare arguments represent a key justification for state intervention designed to promote a defined minimum provision of housing at a defined affordable price' (Leishman and Rowley, 2012, p. 394).

So, what impact does inequality in housing have? Clearly it could have a massive impact on those on low incomes and in poverty. But inequality of housing outcomes may have an impact on social solidarity. Differences in housing may provide a very physical indicator of inequalities that are more evident than differences in income. We rarely know exactly what others earn, but we can see their mansions and penthouses and know their value from estate agents' windows. In addition, housing is, at least in part, a positional good in that the gains in well-being from its consumption depend on the attitudes and consumption decisions of others. As we argued in Chapter 5, our house reflects our identity and our standing, both in our own eyes and that of others. Therefore, satisfaction with our house is dependent on us not feeling inferiority or shame at our situation. A large disparity in housing outcomes is likely to reduce overall societal well-being as the possibilities of feeling shame are greater for those who perceive themselves as not meeting the societal norm. Therefore, inequality is important by itself.

Different groups in society may well be judged by governments according to their place in a moral order which will depend on political philosophy. Some groups may be thought to be more deserving than others, perhaps based on their relationship to the labour market or their position in a hierarchy. In some countries, ethnicity may also be an important factor. Governments may also vary in their attitudes to welfare and to work incentives. All of these factors may be reflected in the housing regime.

The importance of housing costs to the household budgets of many people means that changes may impact on the wider economy. Therefore, governments may want to intervene in housing to stimulate the economy by either increasing purchasing power or stimulating the construction of new build housing to increase employment. In contrast, when the economy is perceived to be overheating, housing may be used to slow down activity. For example, increases in interest rates will increase costs to mortgage holders and so are likely to reduce household expenditure on other goods and so reducing overall purchasing power in the economy.

### **Types of intervention**

In the UK, the Barker report (Barker, 2004), which was commissioned to examine problems of affordability in housing, focused particularly on the issues surrounding housing supply and the perceived shortage of housing that was said to have resulted in higher prices. The major problem was perceived to be the lack of an appropriate level of response from housing developers to increases in housing demand that led to shortage and a concomitant increase in the prices that could be charged. Interestingly, most advocates of this position see government regulation through the planning system as being the major cause of the supply shortfall. If this diagnosis is accepted, then the primary focus of governments in dealing with affordability should be on the supply system, which was covered in the previous chapter, and specifically in reducing government intervention.

However, others have stressed the importance of demand-side factors in generating house price increases (see Matlack and Vigdor, 2008). These may range from general fiscal policies to particular factors such as the distribution of income between different groups and specifically the actions of the highest income groups in increasing their housing consumption and squeezing out others. From this perspective, interventions to deal with problems of affordability are usually financial as one would expect, although other types of intervention to help low-income households (such as the direct provision of state housing) are considered in other chapters. Issues concerning the general financial structure and regulation of housing were discussed in Chapter 4 and so the focus here will be on taxation and subsidy measures to deal with specific affordability issues and these will be considered in turn.

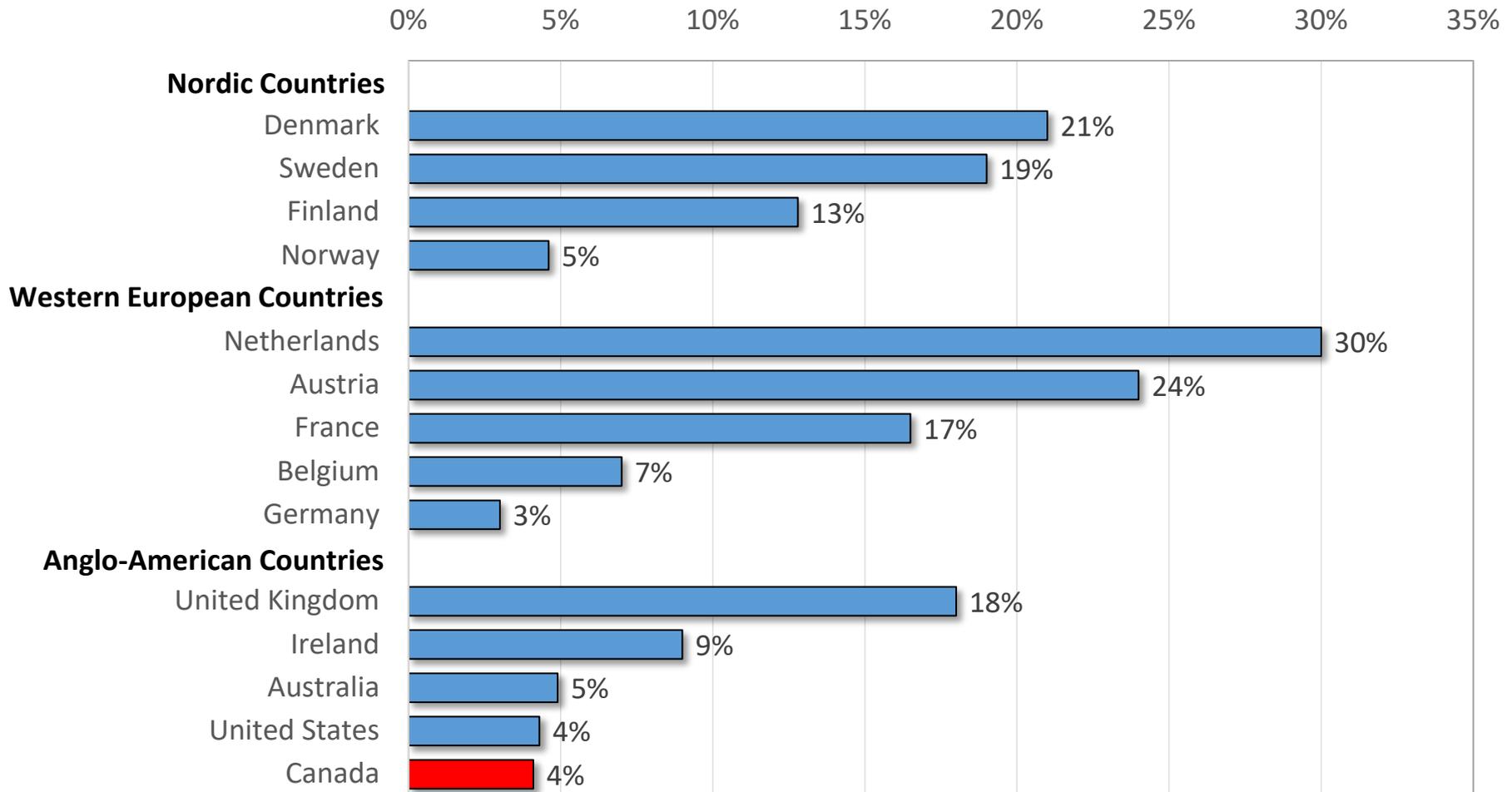
Taxes on houses can be applied in different ways. For example, they may be applied at the building stage, through taxes on materials, such as value added tax (VAT) or on land (such as through a land value tax); or through the appropriation of development gains in land, through planning obligations or a development tax; or on the consumption of housing, through a tax on the imputed rental income or a property tax; or on the sale or purchase of housing, through a purchase tax (or stamp duty in England) or through a sales tax; or on the increase in value through a capital gains tax which is similar to a sales tax as it is usually paid on the sale of property, or an inheritance tax payable on death. The justifications for housing taxation often relate to the need to raise government revenue; the need to create a level playing field with the treatment of other assets or revenues; or the need to make the housing market function more efficiently or effectively by, for example, offsetting volatility. Taxes on the increase in value of land or of housing are in place in some countries, but in varying ways. They are justified as a way of reducing house price appreciation and so easing long-run affordability problems and promoting the view of housing as a need or right rather than a marketed commodity. These taxes also reduce the returns from investment in housing and so play a part in reducing rentiership as well as lessening the processes reinforcing inequalities of wealth. Therefore, as we shall see in Chapter 12, the imposition of taxes on increased value is an important part of proposals to reform or replace the neoliberal housing regime.

Yates (2012, p. 398) defines subsidies as ‘payments or financial aid given by the government to individuals or groups’. However, this definition covers what Yates terms ‘explicit’ subsidies that appear in government accounts such as housing allowances paid to consumers, deposit assistance paid to purchasers or direct grants to social housing producers. However, subsidies also usually include ‘implicit’ subsidies that do not involve explicit budgetary outlays or appear in government accounts. Examples include tax concessions to producers

See next page insert for chart on the share of social housing in the housing systems of various nations

# Social Rental Housing Share, 2019 or latest year

## Fourteen OECD Countries as Three Groups



Share of all household tenure types. Social rental housing defined as "the stock of residential rental accommodation provided at sub-market prices and allocated according to specific rules rather than according to market mechanisms". Source: OECD Affordable Housing Database, PH 4.2.1; Housing Europe (2019) The State of Housing in the EU, Brussels: European Federation of Public, Cooperative and Social Housing, p.23.

and consumers of housing and the setting of below market rents either in public housing based on cost or in private rental because of rent controls, all of which result in certain individuals or groups being treated more favourably than would have been the case without government intervention. The most extensive of this latter category of **subsidies** is **tax concessions** to **owner-occupiers** through allowances (reliefs) on mortgage interest payments and on relief from capital taxes. Subsidies may also be on the demand side (i.e. to consumers) or on the supply side (i.e. to producers). There has been a considerable shift in the balance between these in many countries over time. Yates (2012) states that supply-side subsidies in the form of direct government grants for the provision of public housing were dominant during the 1950s and 60s, but during the 1970s and 1980s there was a switch towards increased use of explicit demand-side subsidies, primarily in the form of housing allowances to individuals. However, since then there has been an increasing awareness of the weaknesses of a narrow approach on one type or another because of the growing awareness of the specific strengths and weaknesses of each and a growing consensus that a mixture of each was required in most circumstances.

If housing is thought to not be affordable then intervention can be on the supply or demand side or both. On the supply side, there may be many interventions that were considered in Chapter 7, one of which is subsidy to reduce the costs of the housing produced. Supply-side subsidies could be grants paid to local authorities, housing associations or private developers to produce housing at below market value. In the UK, planning regulation can be used by local authorities to require private sector developers to provide a proportion of any development at an ‘affordable’ level or, more accurately, below market price. The interventions may be general and apply to all new or existing housing, or they may be tailored to particular forms of housing aimed at particular groups who may be perceived as having an affordability problem, such as those having problems in accessing owner-occupation.

The strength of supply-side intervention is that it has a direct impact on the production and price of housing, and it avoids many of the weaknesses of the demand-side approach, but it can be difficult to target on those most in need without a complex system for determining access to the accommodation that takes into account changing circumstances. This explains the recurrent demand among some politicians in the UK (and in many other countries) that council housing rents should increase as incomes of the tenants rise and the extreme argument that tenants should be forced to leave if their income increases beyond a certain point.

The increased targeting of support on those in most need or on the lowest incomes has the drawback that it is difficult to avoid incentive problems such as the poverty and employment traps. These engage when income rises or employment is gained and a large proportion of the extra income is lost in withdrawn benefits and/or tax increases. This reduces the financial incentive to work or to work longer hours, although many other factors may be involved in individual decisions on these issues.

Therefore, although it is possible to target subsidy more effectively on those in most need using a demand-side approach, the disincentive effects of this can be a major weakness. Demand-side interventions also assume that they will bring about an appropriate supply-side response. For example, support to help marginal households become owner-occupiers assumes that the increase in demand thus engendered will result in more properties being built. But we have argued earlier that the supply of housing is inelastic, in that supply often responds to changes in demand after a long time-lag and then only partially. Therefore, both the short- and the long-term response to an increase in demand-side subsidies could

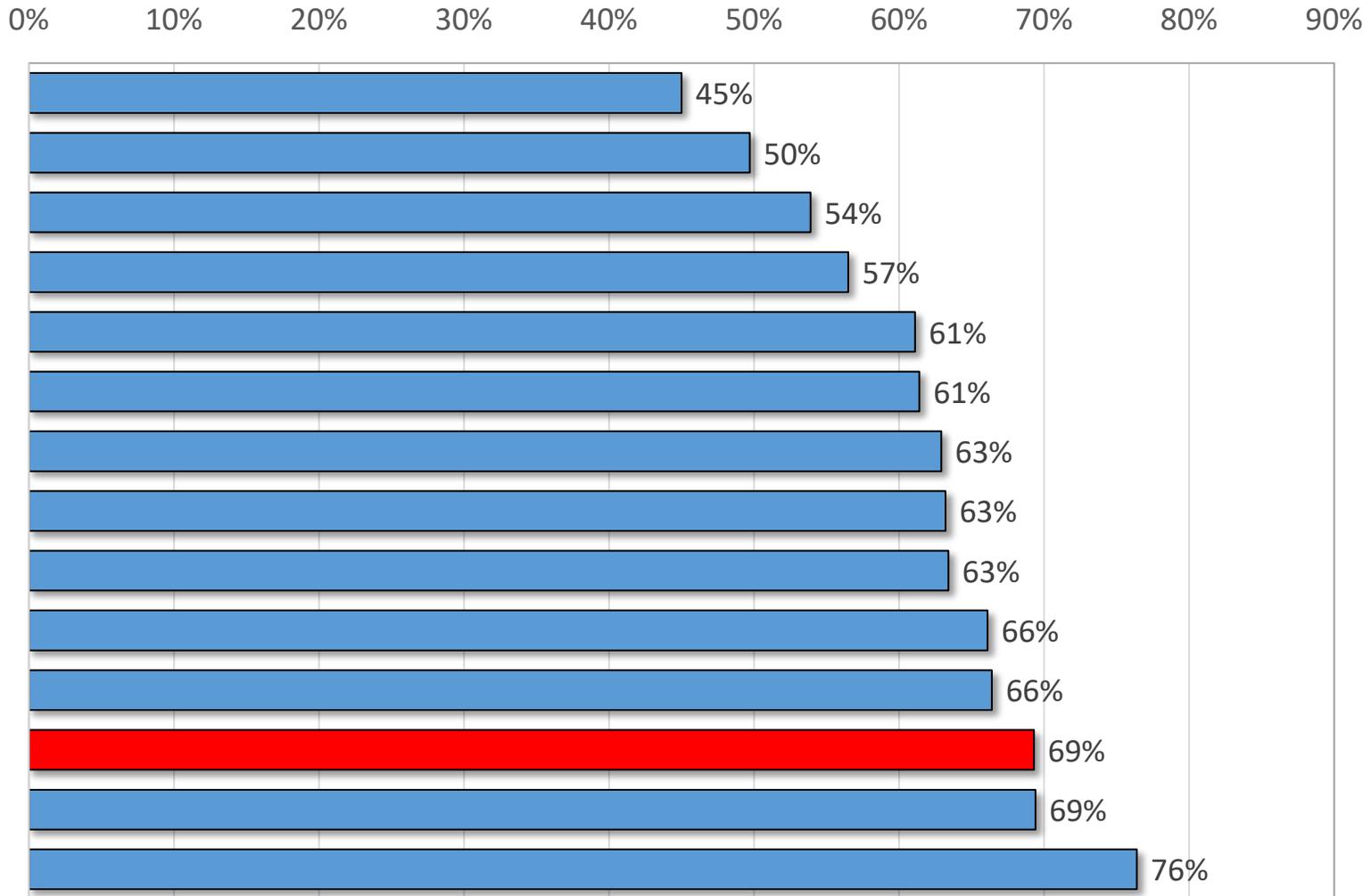
See next page insert for chart on the rate (share) of home ownership in the housing systems of various nations

AND

Canada's tax system subsidies for home ownership

# Homeownership Share, 2014 or latest year

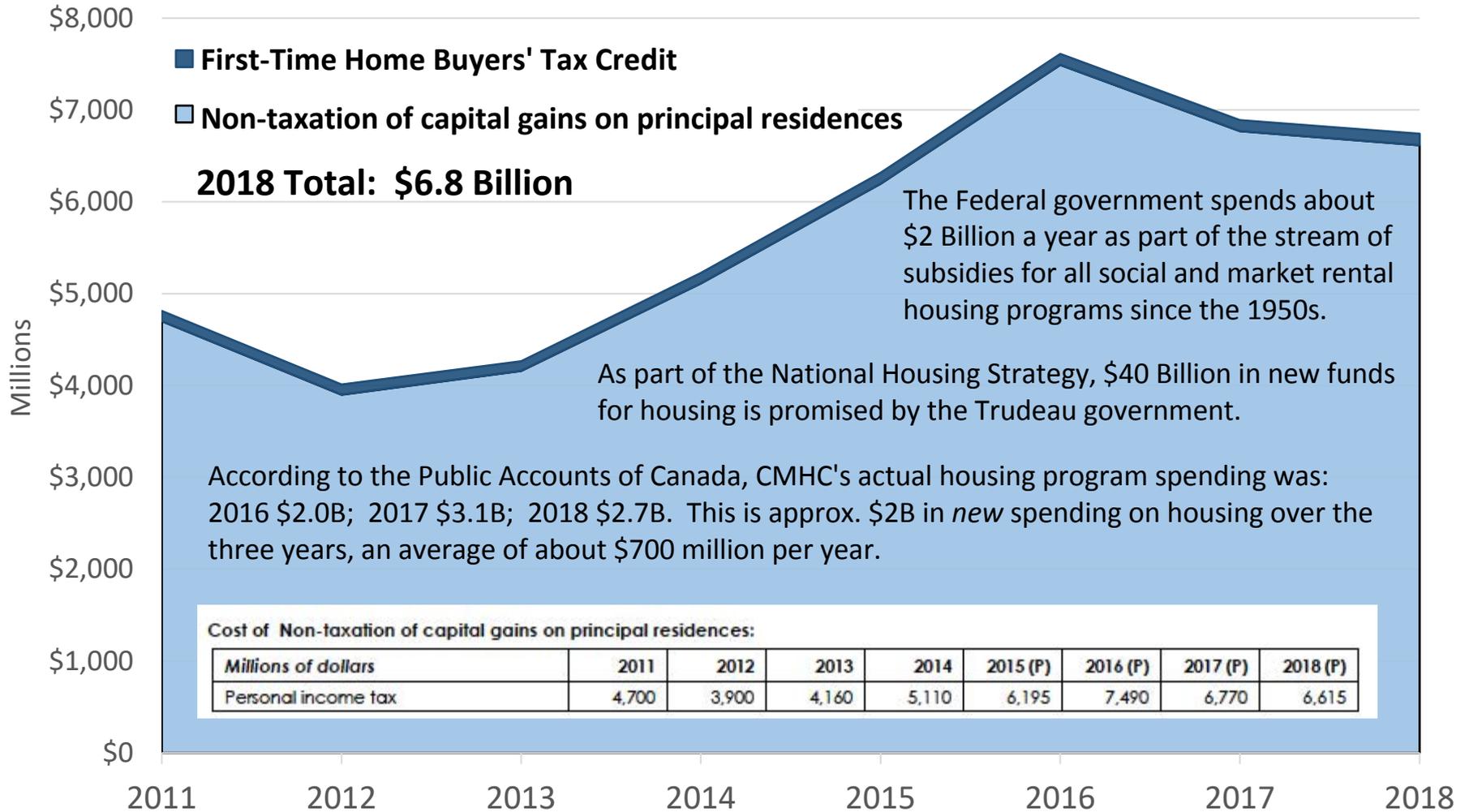
## Fourteen OECD Countries



Share of all household tenure types. With or without mortgage.

# Canada's Homeownership Tax Subsidies

Department of Finance Estimates, 2011–2018



Source: Canada, Department of Finance (2017) *Report on Federal Tax Expenditures: Concepts, Estimates, and Evaluations*.

David Hulchanski, University of Toronto. February 2019.

be an increase in house prices that could feed through to increases in land prices as developers can afford to pay more for land. The same argument could be used for housing allowance schemes for renters that could result in an increase in demand that could be capitalised into rents and in to house prices that landlords are prepared to pay for their stock.

The weaknesses of each kind of intervention mean that many governments choose a combination of the two in an attempt to dilute the impact that one pursued entirely on its own would have, such as the disincentive effects of demand-side subsidies. However, the growing influence of the neoliberal ideology has led to the general reduction in supply-side subsidies in many countries with a consequent increase in demand-side subsidies such as rental allowance schemes or mortgage support with a consequent increasing trend in house prices in many countries.

There are a number of types of demand-side subsidies that are used in different countries. The first category is housing allowance schemes that provide support with rental payments to low-income households. Case Study 8.1 gives the example of rental assistance in Australia, which is in the form of payments to low-income renters in private rental housing and is much criticised for its level of support. **See next page, inserted chart of housing allowance programs.**

### Case Study 8.1 Australian rent assistance

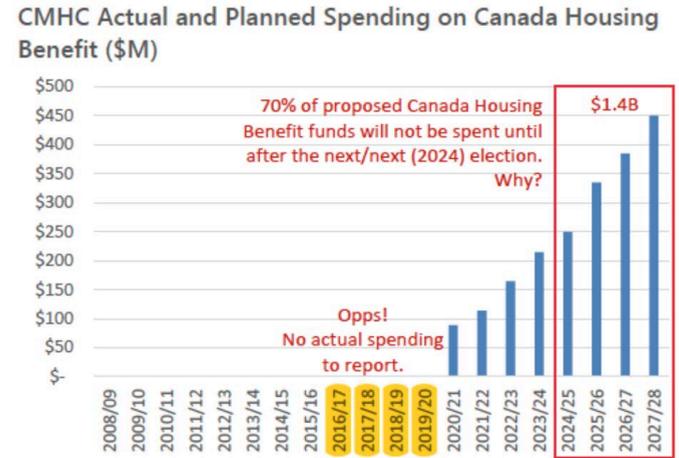
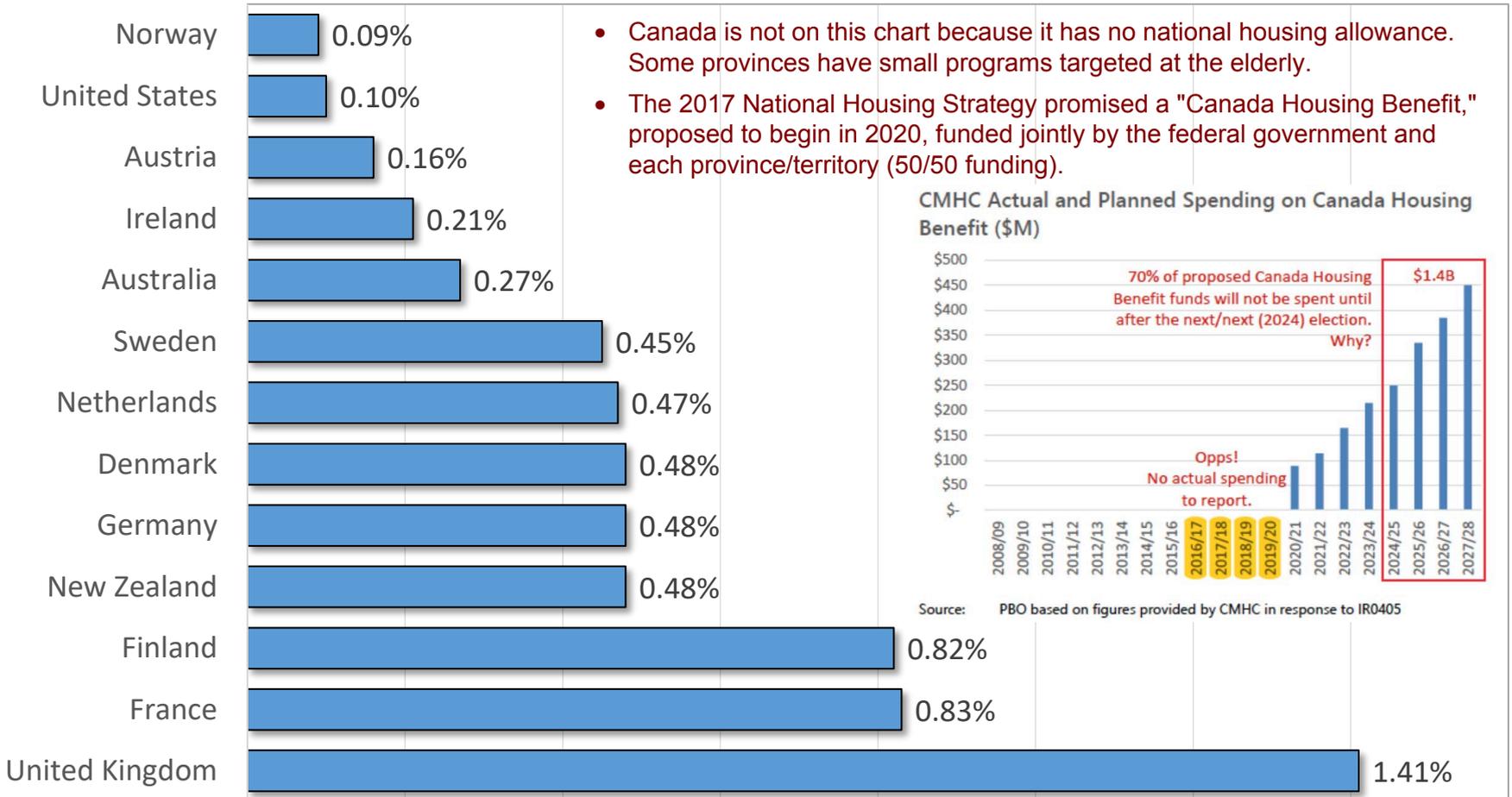
Labor federal governments turned increasingly to Rent Assistance (RA) as the policy instrument to assist people on pensions and welfare benefits to afford private rental housing. RA had started life as a small flat-rate supplement to the single aged and invalid pensions in the late 1950s but over time was extended incrementally to cover other pensioners and beneficiaries, with payments based on household type and size. By the late 1980s, further incremental changes extended the payment to families with dependent children in receipt of family payments and changes were made to the payment formula to target households paying higher rents as part of a strategy to reduce poverty, particularly among families with children. Subsequent changes were relatively minor adjustments, most designed to contain expenditures, such as introduction of a lower ‘sharers’ rate’ in the early 1990s. There have been a number of failed attempts to reform RA. In the mid-1990s, the federal Labor government proposed that it be responsible for a new unified system of ‘housing assistance payments’ to all low-income renters (public and private) in which RA for private tenants would be ‘substantially increased’ and there would be protection for public housing tenants. These reforms attracted substantial criticisms from supporters of public housing and were unable to get agreement from the states and territories, subsequently stalling after a change of federal government. Coalition federal governments (1996–2007) indicated some disquiet about the mounting cost of the payment to the government and instigated reviews of RA but little change to policy settings resulted. More recently, there were three further attempts to address ‘the problem’ of RA under the federal Labor Government (2007–2013).

The proposal to pay housing assistance payments to the states for their public housing tenants as well as payments to private tenants was revived in the context of negotiations for a new National Affordable Housing Agreement in 2008. The Harmer

# Housing Allowance Share of GDP, 2015 or latest year

## Thirteen OECD Countries

0.0% 0.2% 0.4% 0.6% 0.8% 1.0% 1.2% 1.4% 1.6%



Source: PBO based on figures provided by CMHC in response to IR0405

Total government spending as a percent of Gross Domestic Product (GDP). There is provision of housing allowances in Canada but data on public spending are not available.

Pension Review proposed to restructure RA to further target those paying higher rents as well as ‘addressing inequities that have arisen with the sharers rate of Rent Assistance’ (Harmer, 2009, p. 94). The Henry Tax Review recommended that rates of RA should be substantially increased and linked to movement in market rents and that public housing rent concessions should be replaced by Rent Assistance and a new form of assistance for high-needs tenants, to improve equity and work incentives (Henry et al., 2009, p. 66). None of these suggestions for major reform were adopted, indicating policy inertia for almost 25 years, during which time more lower income households than ever became dependent on the private rental market. By June 2013, 1.27m ‘income units’ on pensions/benefits and family payments were in receipt of RA with annual expenditure of \$3.63 billion, far in excess of that spent on public rental housing and other forms of social housing. It has been clear since the work of the National Housing Strategy in the early 1990s that lower income households in receipt of statutory incomes form the majority of those who are in rental stress in the private rental sector notwithstanding receipt of RA and that this remained the case in the 2000s (Yates and Milligan, 2007). As rents have increased due to high demand particularly in large cities, regular indexing of RA payments has become increasingly ineffective in enabling lower income households to rent affordable housing (Colic-Piesker et al., 2010). There is clear evidence over many years that RA, whilst it provides additional money to some low-income households, does not make housing affordable for many recipients and there is little evidence on whether and how they are able to sustain their tenancies. There is, however, clear evidence that RA has not stimulated an increase in the supply of lower rent housing (Hulse et al., 2014).

Source: Based on Hulse and Burke (2016).

Case Study 8.2 shows the example of a different system in the USA that is based on the provision of housing vouchers to some low-income households. Unlike many other forms of support, vouchers are limited, and not all eligible households receive them. In addition, there are problems with the involvement of private landlords in the scheme.

## **Case Study 8.2 Assistance for rental housing in the USA**

### **Affordability**

Housing Choice Vouchers (established in 1998 from the merging of two existing programs), enable low-income households to obtain housing that already exists in the private market. The availability of vouchers is rationed by the amount of funding allocated and so the program is not a ‘right’, and there are large queues of eligible households in some locations for vouchers. Moreover, having a voucher does not guarantee that low-income household will be able to use the subsidy (only 69 per

cent succeeded in 2000). To succeed, the household must find an apartment or house that does not exceed the program's maximum allowable rent, that complies with the program's standards for physical adequacy, and whose owner is willing to participate in the program by agreeing to physical inspections which has proved to be easier in 'loose' as against 'tight' rental markets. They provide rental certificates to households up to 80 per cent of the area median and cover the difference between 30 per cent of adjusted family income and the assessed standard rent which is a proportion between 90 to 120 per cent of the 'fair market rent' which is 40th percentile of median rent and 50th in most expensive housing markets. Receipt of a voucher enables households to search in any neighbourhoods and the scope of destinations is wide. However, 'evidence shows that the vouchers have not succeeded in countering the forces of racial discrimination and segregation. Even though voucher holders have the ability to reside in middle-class neighbourhoods that are not racially segregated, most end up in predominantly minority neighbourhoods, most of which also struggle with high rates of poverty' (Schwartz, 2015, p. 241). This may be partly down to choice, as households may want to remain in a neighbourhood they know and minorities may want to reside in a neighbourhood where they feel safe and are not subject to discrimination. But constraints may also be important as most available properties are in low-income neighbourhoods.

In summary, vouchers are far less expensive per dwelling unit than project-based funding (such as public housing) and offer a greater degree of residential choice. However, the limited geographical spread of affordable housing units limits neighbourhood choice and cannot counter the forces of segregation. The approach is much less effective in 'tight' housing markets and some vulnerable households (large families, older people and individuals with health needs) tend to be less successful in finding accommodation.

Source: Based on Schwartz (2015).

The second category of demand-side subsidy is support for owner-occupiers. One widespread form of this is tax relief on the capital gains from the sale of housing by owner-occupiers which is common in a number of countries. It may be through tax relief on mortgage payments or lower than market interest rates on certain mortgages. Also, it may include specific payments to households to help them purchase housing. These are often focused on first-time buyers to enable them to access owner-occupation. An example of this is given in Case Study 8.3 of help for first-time buyers in Australia.

### **Case Study 8.3 Assistance for house purchase in Australia**

First Home Ownership Grants (FHOGs) are paid directly to households purchasing their first dwelling, and supplement their savings and the mortgage obtained from a financial intermediary to meet the sale price of the dwelling. The Australian

Government established the first FHOG in 1964 as the Home Savings Grant Program. Since then FHOG programs with similar broad eligibility criteria, but with different names, have operated almost continuously. The Home Savings Grant was phased out from 1973 and replaced with the Home Deposit Assistance Grant in 1976. In 1983, it was replaced by the First Home Owners Assistance Scheme, which ran until 1990. The current FHOG was introduced in July 2000 to 'offset' the cost of the introduction of the Goods and Services Tax (GST).

This program history makes Australia a 'standout' country in the use of first home purchaser grants (Dalton, 2012). A further 'standout' feature of FHOGs in Australia is that they are not restricted by age or income, but are available to all who have not previously owned a dwelling. There have been four changes in FHOG program design. First, the idea that grants could be used to stimulate new housing supply was coupled to the earlier idea that grants would improve first homeowner affordability. The Australian Government made this explicit in March 2001 when it introduced the Commonwealth Additional Grant (CAG), which provided an extra \$7000 to grant recipients who were purchasing a newly constructed dwelling (Dalton, 2012). Second, from 2000 the Australian Government transferred program administration to the states but with continued Australian Government funding. Third, some state governments added their own resources to these grant programs, while continuing with stamp duty concessions for first home purchasers. Fourth, some state governments also overlaid a spatial frame by providing additional amounts to householders buying in non-metropolitan regional areas, aimed at encouraging a more decentralised settlement pattern and addressing supply imbalances in metropolitan housing markets.

The conclusion from this analysis is that FHOGs do influence building activity, but only when additional money is available for new housing. Without this incentive, the effect of grants for existing dwellings on construction appears to be negative. Finally, there is the broader issue of housing supply where the evidence is that grants tied to the purchase of new housing increase supply but the effect does not last. Program evaluations suggest the programs stimulate a 'pull through', 'bring forward' or 'pull forward' effect, by encouraging purchasers to come into the market earlier than they otherwise would and, as noted above, convert intending purchasers of existing dwellings to switch to the purchase of a new dwelling. In other words, boost programs that stimulate new housing production do not address the underlying shortage in housing supply that has been well documented by the National Housing Supply Council. Nor do they necessarily address the inelasticities of housing supply that result in Australia having a housing system that responds more poorly than comparable countries to increases in house prices (Andrews, 2010, p. 7).

We however identified three features of FHOGs that show they fail as good policy. First, FHOGs for established housing undermine the objective of increasing housing construction. The modelling showed that increases in these grants were associated with less new construction. Second, the take up of FHOGs supporting new house building tends to result in an increase in outer suburban growth area building. This runs counter to policy emphasising increasing the density of metropolitan cities. Third, there is evidence that the house builders respond quickly by taking orders for

new houses but then can struggle to maintain quality and complete houses on time. Finally, based on our modelling and other research, we noted that the link between FHOGs and housing price increases is unclear. However, it is clear that FHOGs do exacerbate the inequality in the underlying distribution of direct and indirect subsidies in the Australian housing system.

Source: Based on Taylor and Dalton (2016).

Supply-side subsidies are usually in the form of grants to public or private developers to provide housing aimed at reducing the rent or purchase cost to the dweller. One particular category is the cross-subsidisation by developers required through planning powers to provide ‘affordable’ housing. Other forms may be support in kind to the developer from a public body such as the provision of land at below market price or the use of compulsory purchase powers to enable site assembly which were noted in Chapter 7. Another type of supply-side subsidy is price or rent controls. Price controls on owner-occupied housing are relatively rare because of the political bias towards this tenure in many countries. More common are rent controls that may reduce the amount that landlords can charge in rent. Rent controls vary in their application. They can apply to all private rental properties in a country or apply only in specific locations or particular market segments. They may seek to keep rents at a specified level or allow increases for specific reasons such as general or house price inflation, or for actions by the landlord to improve the property. They may be for a limited period of time or permanent. They may apply to all properties or just those where tenants receive state benefits. The imposition of rent controls is usually combined with action to improve tenants’ rights and to control tenancy conditions as well as measures to ensure that properties are kept in good condition (see Chapters 4 and 5).

Case Study 8.4 examines the rent-setting procedures in Sweden which has a form of ‘soft rent control’ in the public sector which has applied in the private sector as part of the ‘unitary rental market’. The marketisation of the municipal housing companies has put this system under threat, and it is likely that market rents will gradually appear in the private sector.

### **Case Study 8.4 Rent setting in Sweden**

In a market system, housing rents are set by the market and the market alone. This is not how rental pricing works in Sweden. Instead, pricing, for public and private rentals alike, is characterised by what Turner (1997a) has called ‘a “soft” rent control system’. This system, today, has two main elements.

The first element is the so-called use-value (*bruksvärde*) approach. The crux of this approach is that rents should always be set according to a dwelling’s use value, not its exchange (market-based) value. Utility-based rents were introduced in Sweden in the late 1950s in the public rental sector, before being extended to the private rental sector in 1968 (Hedman, 2008, p. 9). Previously, rents had been set

according to individual-dwelling ‘historic costs’, whereby the rent charged should cover all historic capital costs plus ongoing operating costs such as maintenance charges – an approach which explains why private sector rents in the 1960s were often lowest in the most attractive, city-centre locations, where the housing stock was oldest (Kemeny, 1993).

Under the use-value system, the approach is different, although costs are still very relevant. Let us first consider the public rental sector (the reason for the choice of which will become apparent below). In setting rents, an assessment must first be made of the overall rental income required across a municipal housing company’s portfolio to cover overall company costs, to provide a certain level of reserves and, from 2011, to generate a ‘normal’ rate of return. This cumulative ‘necessary’ rent can then be spread across the portfolio according, in theory, to the different housing units’ individual use values (and once again, the reason for the caveat will be explained below) – above cost-covering rents being charged on dwellings with high perceived use values and low individual costs, with the surplus used to lower rents on properties with low use values and high individual costs.

The second element of Sweden’s ‘soft’ rent control system concerns the linked question of how rents are actually set in practice. Again, the market is a somewhat distant chimera in this particular context. Rents are set instead through negotiation – between landlords (public or private) and the local tenants’ unions (*hyresgästföreningar*) – based on the use value approach described above. The key point is that in practical terms rents are set not by the market but through what Ruonavaara (2012, p. 100) describes as a ‘corporatist rent negotiation system’.

Until very recently, rent regulation in Sweden included a third ‘pillar’ alongside the above two elements; but this third element was abolished from the beginning of 2011 by new housing legislation which terminated the municipal housing companies’ price-leadership role in the rental market. The essence of this role was that negotiated rents in the private sector had to be based upon rents in the public sector – hence why I started with the latter above. In generic terms, as Hedman (2008, p. 9) notes, the municipals’ non-profit rents served ‘as the first-hand norm within the entire rental sector’, a role ‘codified in law in 1974, after having been an implicit aim ever since . . . 1968, with the introduction of the utility value system’. The rationale, as Kemeny (1993) observed, was to prevent too large profits for private landlords. More specifically, private rents were ‘not allowed to be significantly higher (5 per cent) than rents in similar apartments owned by the municipal housing company’. This regulation has now been discarded. In negotiations, private sector rents still have to be shown to be comparable to those for apartments of similar use-value, but the comparison should not only be made to apartments in the public sector, but also to those in the private sector.

It is possible that over time, the result of the recent removal of the third pillar of Swedish ‘rent control’ may be the beginning of a material divergence between public and private sector rents; and that this may be particularly notable in city-centre locations. Nevertheless, the negotiations-based rent ‘comparability’ principle (*hyresförhandlingslagens likhetsprincip*) still applies, albeit with the municipals’ special role removed; as does the use-value system underpinning it. Any material shift in rents is thus likely to be slow – a likelihood engrained, in fact, in the new law, which includes

a ‘step’ rule (*trappningsregel*) under which tenants subject to material rent increases (larger than about 10 per cent) can ask a rent tribunal to require their landlord to phase the increase over a number of years. Moreover, the power of the tenants’ unions in negotiations – Ruonavaara (2012, p. 100) speaks of an ‘exceptionally high degree of organisation in the tenant movement’ – remains. All of which is to say that Sweden remains a long way from market rents and the uneven urban landscapes they tend to produce. As Bengtsson (1994, p. 185) writes, rent-setting in the private sector has constituted ‘nothing but anticipated use-value comparisons based on the negotiated rents of the public sector’, with the result that ‘the system has all but lost its connection with the market’.

Source: Based on Christophers (2013).

The balance of taxation and subsidy and their application to different tenures are major factors in shaping the housing regime. Case Study 8.5 shows how they played out in Sweden and have changed from being ‘tenure neutral’ to a situation where owner-occupation is a favoured tenure, with many benefits to renters being reduced. This radical change has had profound impacts on the housing regime, but also has major implications for inequality and social justice between different income groups.

### **Case Study 8.5 Housing subsidies in Sweden**

Tenure neutrality was a central premise of Sweden’s post-war housing reforms, and received its most ardent expression in the government’s Guidelines for Housing Policy (*Riktlinjer för bostadspolitiken*) established in 1974. Lennart Lundqvist (1987) has argued that this bill, and the policy regime it underpinned, emphasised three aspects of tenure neutrality: households in different tenures should ideally have equal standards, costs and influence (for example, over issues of housing management, maintenance and modernisation). However, the bill also sought to do something more subtle, but arguably much more significant: to accord equal social status to each tenure form, whereby no single type of tenure would be seen as more ‘valid’ or ‘normal’ than any other. In any event, the crux of the guidelines was that all and any policies enacted in the housing realm should be formulated explicitly in the light of the ‘concern not to steer households to a certain housing form’ (Lundqvist, 1987).

The situation today is a far cry from the ideals espoused in the 1974 guidelines. The reality is that the ‘ideology of home ownership’ examined by Richard Ronald (2008) is no less embedded in contemporary Swedish society, culture and politics than in the Anglo-Saxon and East Asian homeowner societies that Ronald focuses on. Equally significantly, and fundamentally bound up with this ideological transformation, tenure neutrality has long since effectively been renounced in policy practice and has been effected primarily through a series of separate fiscal and monetary adjustments

during the past two decades that have entailed the state pulling back from its historic welfare role, while advancing, in tandem, a model of individual economic responsibility with which owner-occupancy sits most comfortably.

By any measure the most material policy adjustment has been the phasing out, since the early 1990s, of interest subsidies on new construction (Turner, 1999). To appreciate why this adjustment has had such significant implications for tenure equity issues it is imperative to understand that the system of subsidies in place up to 1993 actively favoured rented and tenant-owned housing over the much larger 'pure' owner-occupancy sector (which accounted, at that time, for about 40 per cent of dwellings). The mechanism by which it did so was as follows: the government set a 'guaranteed interest rate' for loans for new construction that was substantially lower for rented and tenant-owned housing than for owner-occupiers; subsidy was received by virtue of the government paying the difference between this guaranteed rate and the market interest rate. As Turner remarks, there was a clear tenure-equality logic to this approach, since 'owner-occupiers received a second subsidy through the tax benefits they received' (Turner, 1999) – benefits which we will discuss presently, and which, critically, have not been phased out. The scale of the impact of this monetary flexing was apparent as early as 1999, by which time the annual subsidy had declined to 7 billion crowns, from 36 billion just six years previously (Turner and Whitehead, 2002, p. 207) – although as Anders Lindbom (2001) notes, the decline was also influenced by falling interest rates and construction volumes.

The second set of policy measures to impact materially on tenure neutrality has been fiscal, and largely taxation-based. In the early 1990s, indirect taxes on rental and tenant-owned housing were increased (to fund a concurrent decrease in the marginal income tax rate for most wage earners) (Turner, 1997a, p. 480). More recently, in 2008, the property tax system was overhauled in such a way that owner-occupiers benefited disproportionately. A national tax – levied at 1 per cent of taxable value for single-family dwellings and 0.4 per cent for apartments (whether rented or tenant-owned) – was replaced by a municipal tax, levied at 0.75 per cent and 0.4 per cent, respectively. Moreover, the maximum payable was now capped at 6000 and 1200 crowns, respectively, equating to taxable values of 800,000 and 300,000 – a much more beneficial cap for homeowners than apartment owners/tenants, given that the prevailing national average taxable values were 975,000 crowns for single-family dwellings (that is more than 20 per cent above the threshold at which the cap kicked in) and 270,000 for apartments (10 per cent below the threshold). Notably, the government appears latterly to have recognised the tenure-tilting nature of these changes, deciding in its 2012 Spring Budget to lower the apartment tax to 0.3 per cent. Yet even this, public and private landlords claim, does little to redress the much larger taxation-related bias in the system: the fact that the continuing tax-deductibility of mortgage interest, a longstanding benefit that no Swedish administration has dared tackle, advantages individual home owners (including, significantly, owners of *bostadsrätt*) alone.

Third and finally, means-tested housing allowances (*bostadsbidrag*) have, over the past 15 years, been slashed. This development, driven by policy changes to limit eligibility (Turner and Whitehead 2002, p. 207), has not constituted a

renunciation of tenure neutrality per se. Yet its effects have been overwhelmingly concentrated amongst rental tenants, where reliance on allowances is greatest, as opposed to amongst homeowners, thus making renting relatively more expensive; and it clearly constitutes a form of welfare state retrenchment explicitly located in the housing sphere. The numbers are stark: a 70 per cent fall in the number of households entitled to and claiming allowances between 1995 (576,000) and 2009 (174,000); and declines in total expenditure on housing allowances of about 40 per cent between 1995 and 1998 and a further 36 per cent between 1999 and 2008.

The cumulative impacts of the above three sets of policy adjustments – in interest subsidisation, property taxation and housing allowances – are apparent throughout the world of Swedish housing in the early twenty-first century. Two interrelated impacts can be usefully highlighted here, to underline the arguments about welfare retrenchment and tenure inequality respectively. First, as Lindbom (2001, p. 508) has observed, the housing sector went, in the course of just one decade, from imposing a net yearly cost on the state of 25–35 billion crowns (in the late 1980s) to delivering a net income of 31 billion (1999). And second, as higher construction and taxation expenses were passed on to renters, the cost of renting increased markedly not just in absolute terms but also relatively-speaking. Sven Bergenstråhle calculates that between 1986 and 2005, rents increased by 122 per cent, compared with a rise of 41 per cent in owner-occupancy costs and with general inflation of 49 per cent; other researchers suggest that something in the order of 70 (Jan Danneman, cited in Lindbom, 2001, p. 510) to 90 per cent of those rental cost increases were due to political/policy decisions. In other words, a society now ideologically wedded to the individualised and economically-responsibilist ethic of owner-occupation has seen the state increasingly withdraw from the rental sector, and the costs of inhabiting the latter increase accordingly.

Source: Based on Christophers (2013).

Although the precise pattern of taxes and subsidies varies between different countries, there are changes that can be associated with a neoliberal housing regime that the Swedish situation exemplifies. Two elements stand out. One is the change in relative balance from renting to owner-occupation with the latter becoming more favoured with tax reliefs and subsidies. This is associated with a reduction in subsidies to renting in general in Sweden, although in the UK subsidy levels have risen as rents have increased considerably in the dominant private sector, thus leading to increases in the total expenditure on housing allowances, despite attempts to implement reductions in payments. The second and related trend is the move from supply-side to demand-side subsidies. In the public rented sector, rents have increased reflecting the removal of supply-side subsidies, and housing allowances have increased in importance. In owner-occupation, tax reliefs and demand-side subsidies have grown, and some supply-side subsidies have been introduced under the guise of incentives to new production.

**Evaluating the impact of housing subsidies and taxation**

The Mirrlees Committee in the UK (Mirrlees and Adam, 2011) laid out four principles for a good tax. It should:

- 1 have as little impact as possible on welfare and economic efficiency;
- 2 should not be unduly costly to administer or comply with;
- 3 should be fair in procedure, discrimination between groups and have regard to legitimate expectations; and
- 4 should be transparent – people should be able to understand the tax system.

Barker (2014, p. 58) has added a useful list of aims of taxation on housing:

- to reduce the incentive for households to speculate on rising prices and so reduce both house price volatility and possibly the level of prices;
- to move towards a more equal distribution of wealth;
- to move towards a better distribution of housing space;
- to achieve a level playing field between different tenure types;
- to achieve a level playing field between housing and other assets;
- to stimulate more housebuilding; and
- to support environmental goals.

These are a wide range of aims and can be applied to subsidy as well as taxation and show how these two elements are an integral part of the achievement of government objectives in housing, although this list of aims would not receive agreement from some politicians and therefore will only be applicable in certain housing regimes. However, it is worth emphasising here how the taxation of capital gains in housing, including that on the main home, would help to achieve all of these aims, which is why it is being increasingly advocated by many in housing (for the UK, see Barker, 2014; Bowie, 2017). The key element of this form of taxation though is that it reinforces the view that housing should be a consumption good rather than an investment. Many problems in housing markets can be put down to the emphasis on wealth creation and capital gain that increases house prices, the volatility of housing markets as well as more distributional concerns about inequalities in wealth.

Yates (2012) provides an overview of the evidence on the impact of different forms of subsidy on affordability objectives.

This evidence suggests demand-side subsidies are generally more effective in meeting affordability objectives than are supply-side subsidies because they can be well targeted (providing support to only those who need it) and are more cost-effective than supply-side subsidies in terms of their impact on government budgets. However, they are less effective in tight housing markets (where vacancy rates are low) and in housing markets where the elasticity of affordable housing supply is low. In such cases, they could increase the cost of housing in the affordable segment of the housing market and result in a net loss of stock affordable for low-income households.

(Yates, 2012, p. 407)

There has been substantial criticism of the impact of demand-side subsidies aimed specifically at helping marginal owner-occupiers into that tenure. Again, it is worth quoting in full from Yates' review of the evidence.

Demand-side subsidies that facilitate access are often seen to be inequitable (in that they provide support to households with fewer affordability problems and more choices than many of those in the rental market), inefficient (in that they simply add to price pressures in the housing market) and ineffective (in that they merely bring forward purchases that would have occurred in any case). There are also concerns about encouraging vulnerable households into homeownership and exposing them to the associated risks may not be in their best interests.

(Yates, 2012, p. 409)

This general picture is mirrored in the situation in Australia outlined in Case Study 8.3. As Yates argues, there is little evidence that demand-side subsidies to owner-occupation increase the supply of new dwellings in that tenure. As was noted in Chapter 7, the supply system is very complex and development agencies may not be stimulated by increased demand, but may just increase their prices and pass this on in the price they are prepared to pay for future land purchases. Programmes designed to provide subsidy to enable households to enter owner-occupation may help the recipients in the short-term, but add to general price and affordability pressures for others and for similar households in the future.

General tax subsidies to owner-occupation are criticised for a number of reasons. The first is that they have resulted in higher house prices as the effective demand moves through to land prices. The second is that they tend to be pro-cyclical and so contribute to the boom-bust cycle in housing and make government management of the economy more difficult by counter-acting the effectiveness of automatic stabilisers. Third, they have been criticised for their distributional outcomes as they tend to benefit those with high incomes. General subsidies (rather than those focused on marginal owner-occupiers) tend to support people on high incomes whilst making more difficult (because of their impact on house prices) to enable moderate income households to enter the sector.

The impact of demand-side subsidies in rental housing is mixed. Although there has been concern about their incentive effects, Yates (2012) concludes from a review of studies that there is little evidence of any impact of housing support on labour market incentives. Nevertheless, housing allowance schemes are generally costly to deliver and difficult for renters to cope with. There is little evidence that demand-side subsidies increase the supply of new rental housing (see Case Study 8.1). In neoliberal housing regimes, there has been a phasing out of supply-side subsidies and a move towards removal of rent controls, and so rents have moved to market levels, thus increasing the financial strain on low-income households and housing allowances, resulting in efforts to reduce government expenditure by restricting availability. The example of Sweden in Case Study 8.5 illustrates this.

An alternative form of subsidy to rental sectors is supply-side subsidy through rent control, a major advantage of which for governments is that they do not bear the cost of the subsidy to the tenant. The direct incidence is on the landlord, but there may be further impacts as this reduces the price that landlords can pay for housing whilst still making a return on their investment. In turn, this will have a downward effect on general house prices and, therefore, on the price of land. The incidence is important as, if the impact is largely on

landlords and they are unable to pass this on, it will reduce their income and ability to keep property in good condition. The main disadvantage of rent control is that it is perceived as restricting the supply of rented housing. It is argued that rent control in the UK over a long period of time has resulted in a reduction in the size of the private rented sector because of a lack of new supply, and this case is reinforced by the large increase in the tenure that has occurred in the UK since deregulation in the 1990s. However, an alternative interpretation of the UK experience is that the decline in size of the private rented sector occurred at a time when there was widespread provision of low-cost state housing, and owner-occupation was easily accessible, as well as the existence of rent controls. The recent growth in the sector has occurred at a time when state housing is in short supply, and there are affordability problems for many people seeking to access owner-occupation, as well as rent decontrol. The restriction or not of rents is only one part of a complex situation of interdependencies between tenures. Clearly, the imposition of rent controls needs to be implemented with a clear understanding of the context within which it will operate and the impact it will have across the housing regime. We will return to this in Chapter 12.

The interventions discussed in this chapter are designed to change the distribution of housing, and this is how they should primarily be judged. The key issue is whether each intervention achieves the distributional aims of the government that enacts it at the least cost when compared to other forms of intervention. But all of the interventions have other impacts such as the possible disincentive effects or the price impacts of some demand-side subsidies. Also, it can be difficult to assess the impact of any intervention because of its eventual incidence. For example, subsidies to households may first be given to them, but if they result in higher house and land prices the real beneficiary is the landowner. But the impact of these interventions is broader because of the impact over time and the fact that they are broader than just the housing outcomes as they may impact on the economy and on societal well-being.

## **Conclusion**

In a market situation, the distribution of housing is likely to mirror the distribution of income and wealth in the society. However, housing is also a key driver of inequalities because of its high cost in household budgets and its mechanism for some people to derive wealth from the increase in house prices. Housing is a major part of the ‘rentier economy’ (Standing, 2017) that has been the consequence of the growth of neoliberalism. Housing subsidies and taxes can alleviate or support these inequalities. The neoliberal trend has been to remove general supply-side subsidies to public renting and to rely on demand-side subsidies such as housing allowances for renters that are focused on lower-income households, whilst retaining and improving the financial advantages of owner-occupation and offering help to some groups perceived as having affordability problem and encountering difficulty in entering the sector. The result is a complex picture of winners and losers amongst different groups, but, in general, a situation that may help to reduce poverty, but does little to reduce the growing inequality. Support for owner-occupiers in terms of tax exemptions, as well as specific affordability programmes, serves to reinforce the drivers of inequality through increasing house and land prices, whilst not bringing forward the increases in supply that would counteract this (see Chapter 7). Also, it creates the intergenerational inequities that have seen many young people unable to access owner-occupation, having seen their parents generate large wealth through the increase in house prices.

The policy tools are available for governments to pursue a more egalitarian policy. The imposition of taxes on the increase in house prices would reduce rentier income (which would benefit the economy in general as well as helping to reduce inequality) and put a constraining influence on house prices which would reduce affordability problems. The greater reliance of supply-side subsidies for public renting and the imposition of rent control as pertained in Sweden until the 1990s (see Case Study 8.5) would help low-income families whilst reducing government expenditure on demand-side subsidies and restraining house price growth.