**HOUSING SYSTEM CHANGE: AN INTERNATIONAL PERSPECTIVE**

*Henry Halloran Research Trust address by Mark Stephens, Ian Mactaggart Chair in Land, Property & Urban Studies, University of Glasgow, and Visiting Professor, School of Architecture, Design & Planning, The University of Sydney, 27 April 2023*

I’m very grateful for the opportunity to deliver this lecture. I would like to thank The University of Sydney for hosting me during my period of study leave, and the Henry Halloran Research Trust for facilitating this event.

The pandemic, which so abruptly halted exchanges such as this, also demanded levels of government support and social cohesion that few people have experienced outside wars. This briefly gave rise to a hope that we might “build back better” – learning not only that collective action can be good for us all, but that we should be kinder and more understanding of one another.

The underlying motive for the theme of this lecture – housing system change, explored internationally – is to help us to understand how housing systems operate, and consequently to facilitate discussion about what might make them work better.

Let me begin by briefly outlining what I mean by a housing system. It is the range of institutions that influence the ways in which people are housed and how housing is used. These may be thought of as operating in three spheres:

* The sphere of production – or supply.
* The sphere of consumption – which includes tenure arrangements
* And the sphere of exchange - or finance.

There is, in principle, a plethora of possibilities, particularly when state and market institutions as well as households are all actors across each of the three spheres.

Dynamic interrelationships are therefore an inherent part of housing systems, which are not fully captured when the efficiency of individual markets are examined in isolation.

But possibilities also imply boundaries, or limitations. And many of these boundaries are set by the contexts in which housing systems operate.

I shall now discuss these contexts.

The three decades following the Second World War – *les trente glorieuses* as the French call them – saw a set of international economic institutions established that facilitated and regulated trade, but nonetheless allowed national governments to operate fiscal and monetary policy in such a way as to maintain full employment and steady levels of economic growth.

This also allowed countries to develop their own distinctive institutional arrangements governing labour markets, and how they chose to redistribute labour market income through tax and social security arrangements.

This set of institutions can be thought of as a welfare system.

And the way in which these welfare systems were configured had distinctive distributional outcomes – that is levels of income inequality and poverty.

Let us take two contrasting examples.

In the United States there were considerable barriers to creating the kind of social protection systems that were developed in other advanced economies. Political culture was more individualistic, the constitution was designed to limit Presidential powers, whilst racism and the legacy of slavery erected another barrier. Even after Lyndon Johnson’s Great Society and War on Poverty in the 1960s, there was – and never has been – a comprehensive income safety net in the United States.

An economy that generates great wealth has always divided it very unevenly.

At the other end of the spectrum sat Sweden.

Sweden developed a quite different model, which stood out even among other social democracies. Building on an historic agreement between unions and employers a form of corporatism that sought to compress wage differentials and contained wage increases to encourage reinvestment and productivity growth was developed and for a while was successful.

Alongside it, the better-known systems of generous benefits and universal services were developed during the three decades of uninterrupted Social Democratic Party government. Poverty rates in Sweden, according to OECD, were below 4 per cent in the 1980s.

It is not surprising, therefore, that quite different housing systems developed within these contrasting contexts.

Public housing was developed in the United States, but it was “outside the market” – limited to people who could not secure adequate housing without substantial assistance.

Hence the main thrust of policy was to promote the American Dream of Homeownership through a regulated mortgage finance system backed by state guarantees through the Federal Housing Agency. Within its own terms this policy was successful, driving up the homeownership rate, but equally, through discriminatory underwiring criteria, excluding much of the black population, so reinforcing residential segregation.

In Sweden, unsurprisingly, a radically different housing system was created.

A state subsidised housebuilding policy – known as the Million Homes Programme – ran between the mid-1960s and mid-1970s. It was led by Municipal Housing Companies, although the principle of tenure neutrality meant that private landlords could also receive support. The private rented sector was initially subject to rent controls, but these gave way to a system whereby rents were negotiated locally between the tenants’ federation and the municipal housing companies, and these were used as the basis of setting rents in the for-profit sector.

It became a point of principle that municipal housing was open to anyone, regardless of income, so much so that Swedes still vehemently reject the application of the term “social” housing to its Municipal Housing sector.

I was once invited to give a talk to housing practitioners in Sweden. Having patiently listened to me speaking in English, the participants went into discussion groups. In these groups the only English words I heard were “social housing,” the concept so alien that the Swedish language would not be employed to dignify it with its own vocabulary.

Meanwhile under the auspices of Christian, rather than Social, Democracy Germany also developed a housing system in which the market was shaped by the state, but the state did not attempt to replace it.

Germany’s social market economy regulated labour markets, supported corporatist wage bargaining, but was more conservative than in Sweden in maintaining the male breadwinner model and less redistributive through its social insurance system.

Extensive subsidies for the housebuilding were essential given the extent of wartime destruction and the need to house millions of refugees. And they were available across the board.

Municipalities, public and private sector employers, as well as trade unions all built social housing. But so too did private landlords, who were required to rent properties on social terms at least until their subsidised loan had been repaid.

As shortages were met on an area-by-area basis, harder forms of rent control gave way to weaker forms of rent regulation combined with tenure security. The ambition was to create a single rental market shaped but not dominated by the state. The result was a housing system where many people chose renting over owning.

In each of these examples, the housing systems were embedded within the welfare systems.

So, if we are to look for explanations of housing system change we must also examine how welfare systems evolved.

Systems of economic governance seem to work … until they don’t.

The breakdown of the post-war economic system and its replacement with a more globalised one came in several stages.

First, the rise in inflation arising from the Vietnam War and the oil price shocks of the 1970s, provoked economic crises that demanded action, and shifted economic ideology towards favouring market-based solutions.

Second, the collapse of the Soviet Union served to reinforce the Washington Consensus – the belief in the overriding efficacy of markets - that came to dominate international institutions such as the World Bank.

Third, the opening up of China brought with it a plentiful supply of cheap goods and what Manuel Aalbers has called a “global wall of money.”

A particular effect of these changes was to introduce an era of low interest rates, and interconnected finance markets. The latter occurred as advanced economies conformed to the new consensus of charging central banks with targeting consumer price – but not asset – inflation and setting interest rates accordingly.

Let us return to Sweden and Germany to see how these developments interacted with changes in the welfare and housing systems.

Sweden, along with other Nordic countries, chose to deregulate its finance system in the 1980s. That they were in the first wave of countries to deregulate their finance systems is perhaps surprising.

However, deregulation had far-reaching consequences for Sweden’s social and economic model, that was already under strain.

As in other countries, the sudden increase in the availability of credit caused an unsustainable house price boom. In Finland, the illustrative if not especially funny joke was that a man went into a bank to shelter from the rain and came out with a mortgage. In what should have been a warning to the rest of the world, the subsequent crash in the early 1990s brought about a full scale banking crisis, necessitating bank rescues, debt forgiveness and the establishment of a bad bank to carry loans that would never be repaid.

As unemployment rose, it also signalled the end to Sweden’s unique economic model. Key institutions, such as collective wage agreements, were watered down, competitive devaluations were abandoned, fiscal consolidation and inflation targeting with central bank independence came in. Labour markets were deregulated and social security – whilst remaining generous by international standards – was cut back. High levels of employment have returned, but poverty and inequality have risen.

What has happened in the Swedish housing system is intriguing. In the 1990s, subsidies for Municipal Housing Companies were withdrawn, and levels of building slumped. As we have seen, the mortgage finance system was deregulated.

Combined with a reform that allowed shares in apartments in the owner-co-operative sector to be freely traded on the market, mortgaged homeownership rose and became the tenure of choice. Sweden is now one of the most highly mortgaged countries in the world, and mortgaged homeownership the majority tenure.

Yet many of the institutions of the social democratic era have been maintained: rents are still negotiated – with the for-profit landlords now part of the negotiations. There are acute shortages particularly in the large cities, and there is now a well-established secondary market in rent-controlled flats – sublet, sometimes illegally, often at market rents.

Meanwhile, a decade ago, with poverty and inequality rising, the Municipal Housing Companies had to make an important decision.

EU competition law suggested that if they were to maintain below market rents, they would need to start limiting access in favour of poorer households. The Municipal Housing Companies responded by reiterating their support for “housing for all.”

Except many made it more difficult for poorer households to access the sector with demands for references regarding behaviour and rent payment records. Some have even turned their noses up at applicants who receive the means-tested housing allowance.

To make it more complicated, social work departments, who have responsibility for homelessness, lease apartments from municipal housing companies which in turn squeezes out middle income groups.

No wonder, Brett Christophers borrowed Jane Jacob’s phrase “monstrous hybrid” to characterise the modern Swedish housing system.

In Germany, too, perceived economic failure – if not crisis – in the 1990s prompted change. It seemed that the German Social Democrats had, as the economist Paul Krugman put it, joined the

“… many people on both sides of the Atlantic [who] believe the United States has achieved low unemployment by a sort of devil’s bargain, whose price is soaring inequality and growing poverty.”

A government committee chaired by a former Chief Executive of VW, Peter Hartz, resulted in wide ranging changes to the social and economic model that – to simplify – moved towards a less regulated labour market and a shift towards social assistance, resulting in the creation of so-called mini-jobs, higher levels of employment – especially female employment – but also a trend towards higher levels of in-work poverty.

The housing system, too, has evolved, mirroring some of these changes to the wider welfare institutions.

The federal government has made various attempts to withdraw from responsibility for housing since the late 1980s and devolve it to the states. The pressures of unification in 1990, and the refugee crisis in 2015 prevented this, but suffice to say the era of sustained major subsidy is over.

Under budgetary pressure, some municipalities (including Berlin and Dresden) sold part or all their housing stocks to international investors in the 1990s and 2000s. Some 1.5 million units were lost in this way. With low levels of subsidy and hence new investment, the social rented sector has shrunk further as properties owned by private landlords shift into the market sector as subsidised loans are paid off.

The weakened influence of social housing has combined with population pressures to place upward pressure on rents. The social market’s effectiveness has declined, leading to a reversion to stricter forms of rent controls. As shortages become more acute, the remaining social landlords have increased the targeting of allocations.

Nonetheless, an interesting part of the German system is what has not changed. Whereas Sweden shifted towards a housing system where mortgaged ownership has become the largest tenure, Germany has maintained its status as a rental society.

Security and moderated costs for established tenants remain attractive, even to many people who could afford to buy.

Germany did not “deregulate” its housing finance system as the English-speaking and Nordic countries did. However, if the demand was there, foreign banks could offer larger mortgages under the terms of the European Single Market – which has been in place for three decades. So it seems that there is a lack of appetite for acquiring debt, associated with a greater aversion to risk.

The aversion to mortgage debt that is present in some countries is something that some find difficult to believe, particularly in the Anglosphere.

Much emphasis was placed by the World Bank and other western advisors on the creation of mortgage systems in the formerly communist countries of central and eastern Europe.

Yet these countries have become super-homeownership states – that is with ownership levels over 80 or even 90 per cent - largely without mortgages.

Jane Zaviska, an economic sociologist, found that when interviewing ordinary Russians about mortgages, the term *kebala* was frequently employed. *Kebala* means “debt bondage”. It seems that an American’s Dream of homeownership with a mortgage a Russian’s Nightmare of debt bondage.

I debated this point with an American economist who had been a key advisor to the former communist countries in the ’90s, who replied incredulously, “And now you’re telling me that these people don’t want mortgages. Well, they sure do where I come from.”

On the last point he was undoubtedly right.

But the US sub-prime crisis of course provides the exemplar warning about over egging access to mortgage finance as a means to open up homeownership to previously excluded groups. The context was one of widening inequality from a high base, stagnant incomes at the lower end of the income spectrum and, in President Clinton’s words, “ending welfare as we know it.”

The system that evolved was one whereby sub-prime lending was to be maintained by ever rising house prices – until default rates reached such levels that the whole pack of cards collapsed. Using homeownership to alleviate the pain of persistently low incomes turned out to be a dangerous illusion.

Moreover, in the globalised financial system the risks were distributed around the world, culminating in the Global Financial Crisis.

But what is striking about the post-financial crisis experience has been how we have drifted into a new political economy of housing, especially in countries where homeownership was until relatively recently a realisable aspiration for most of the population.

Central banks cut interest rates aggressively in response to the 2008 financial crisis, and adopted Quantitative Easing – purchasing bonds from banks to free up capital to encourage lending – to support asset prices. We moved from low to ultra-low interest rates, which were then maintained throughout the long decade from the financial crisis to the pandemic.

In the UK one effect of this policy was to prevent the kind of house price correction that we might have expected after the financial crisis. Whilst prices initially fell from their 2007 peak, the affordability that had been lost – and was squeezing younger households out of homeownership before the financial crisis – was never recovered. As one senior figure in the mortgage industry told me, if prices had been allowed to fall further, “we would have rebased affordability better.”

The UK Government’s subsequent response to the affordability problem has been to adopt demand-side approaches, which place upward pressure on prices.

Policies include preferential rates of stamp duty for first time buyers and the Help to Buy shared equity loan scheme, which for the first time gave the government a direct stake in protecting house prices. Whilst evaluations suggest the scheme opened up homeownership to few who would not have been able to do so without support.

It certainly helped out the housebuilders.

Help to Buy accounting for between one-third and a half of sales of five of the largest six housebuilders. Yet the housebuilders responded to the crisis by adopting risk averse policies and managed build out rates, again to protect prices. The government adopted an ambitious supply target, but this remained at best aspirational.

It's always easier to analyse problems than identify solutions, but I will end by making some observations about the role of policy.

These observations are generic, that is not aimed at any particular country, but I know that some of these will resonate with debates that are going on in Australia.

First, we need to think about income poverty and inequality.

Housing systems have changed, partly because poverty and income inequality have risen in many countries. This both limits the choices of the poor, enhances housing consumption among the rich, and places additional pressures on social rented sectors. Yet there are some countries which have avoided these trends, so Krugman’s “devil’s bargain” is navigable. Moreover, there remain significant differences in the levels of poverty and inequality between countries. Raising social assistance benefit rates, which are often inadequate, is a starting point, although enhancing Housing Allowances – such as Rent Assistance – would target housing induced poverty directly.

Second, we should at least think about the role of monetary policy.

We have seen that central banks have targeted consumer price inflation, but allowed asset prices – including housing – to soar.

In 2021 the New Zealand government added house prices to the reserve bank’s inflation mandate, suggesting that this might dampen “investor demand… and improve affordability for first time homebuyers.”

However, the bank’s governor made no secret of his opposition to this initiative, claiming that it would make monetary policy less effective.

“We will,” he said, “be considering our financial stability policy settings via our prudential tools – like loan-to-value ratios, bank stress testing, and capital requirements.... This is done with a view to moderating housing demand, particularly from investors, to best ensure house price sustainability.”

Third, housing supply should be thought of in the round – that is more broadly than housebuilding rates.

This concerns the distribution of housing consumption, and the use for which it is employed. Houses purchased by overseas investors and kept empty are a relatively easy target. Housing underoccupied by homeowners is much more difficult, but is something that needs to be discussed, and of course relates to property taxation.

Fourth, we should consider what role social renting might play.

The experiences of some European countries show how a social rented sector can become part of the mainstream housing market.

This requires a long-term commitment to invest in the sector, so that it may begin to house a wider spectrum of the population and eventually become part of the mainstream market.

In Scotland what is thought of as being politically possible has shifted in the last decade. The right to buy policy of discounted sales to social tenants has been ended without political fallout, and a five year 50,000 unit affordable homes target reached. A commitment to build at a higher rate extends over the next decade, although is already pressure from rising building costs.

Fifth, some form of rent regulation is already proving to be irresistible in many jurisdictions, despite economists’ general scepticism.

Germany has long operated a system of moderating rent increases within existing tenancies, which are secure. But growing pressures caused an extension of controls to new contracts after 2015 – which limited rents to 10% over comparable local rents. It is a form of market dampening, rather than market denial that might characterise rent caps.

Sixth, in terms of policy instruments, this does not come down to public spending alone.

National, regional or local governments generally determine whether land is developed. This leads to an interesting philosophical question as to who owns any uplift in land value arising from permission to develop being granted – the landowner or the state.

There is of course a large middle ground, which affords possibilities for gaining public benefit from still profitable private developments.

Finally, the taxation of housing is often poorly designed and regressive, and there are good economic arguments for taxing land values.

Housing affordability is an increasing challenge around the world. As well as affecting the lives of millions of households, it has implications for economic competitiveness and social – particularly intergenerational – cohesion.

There are no easy or short-term fixes, but effective solutions are likely to require us to regain a greater sense of individual responsibility and the collective good.

Thank you.

ENDS