# Housing Policy in Western Europe: An Economic Analysis of the Aims and Instruments of Housing Policy in the United Kingdom, West Germany, France, the Netherlands, Denmark, and Ireland.

Submitted for the degree of Ph.D.

Leicester University, 1983.

*Michael John Oxley*

CONTENTS


| | | Page |
|---|---|---|
| Acknowledgements | | 3 |
| Glossary | | 4 |
| Abbreviations | | 6 |
| Chapter One: | Introduction | 7 |
| Chapter Two: | The Aims and Objectives of Housing Policy | 17 |
| Chapter Three: | Perceptions of Housing Problems | 43 |
| Chapter Four: | Policy Instruments | 97 |
| Chapter Five: | Rent Determination Policies | 190 |
| Chapter Six: | Housing Allowances | 269 |
| Chapter Seven: | Owner-Occupation | 327 |
| Chapter Eight: | Conclusions | 417 |
| Appendix A | The Principal Individuals and Organisations who have provided information. | 434 |
| Appendix B | List of Translations. | 436 |
| Bibliography | | 438 |

ACKNOWLEDGEMENTS:

A large debt of gratitude is due to Paul Herrington for his enthusiastic and helpful supervision.

A research grant from S.S.R.C. financed some of the overseas travel and the translations which provided a fund of information that subsequently became an input into this work.

Many thanks are offered to the large number of individuals and organisations in Britain and throughout Europe who provided a great deal of the factual material on which this research is based, to those colleagues at Leicester Polytechnic who have provided help and understanding while this work was in progress, and to Mrs. Stella Jackson for the efficient manner in which she produced the final typescript.

On a completely different level, may I try to express my appreciation of the enormous sacrifices made by my wife Dianne my children Russell and Natasha; without their support and patience this work would never have been completed.

# G L O S S A R Y

| | | |
|---|---|---|
| Bausparkassen | : | Specialist housing finance institutions (West Germany). |
| Boligsikring | : | Housing allowance (Denmark). |
| Crédit Foncier | : | Semi-public bank providing subsidised housing loans (France). |
| Einkommensteur (7b) | : | Regulation giving tax concession to owner-occupiers (West Germany). |
| Épargne - logement | : | Saving for housing incentive scheme (France). |
| Förderungsweg (1st and 2nd) | : | Subsidy regulations (West Germany). |
| Gemeinnutzige Wohnungsbaugesellschaften | : | Tax concession arrangements for housing associations (West Germany). |
| Huurpryzenwet Woonruimte | : | Rent control legislation (Netherlands). |
| Individuele Huursubsidie | : | Housing allowance (Netherlands) |
| Kreditforeningen | : | Specialist housing finance institutions (Denmark). |
| Logécos | : | Subsidy programme for private dwellings (France). |
| Rentesikring | : | Interest subsidy to housing associations (Denmark). |
| Sozialwohnungsbau | : | Social or public housing (West Germany). |
| Surface corrigée | : | Weighted surface area of rented dwellings (France). |
| Sur-loyer | : | Additional rent for higher income earners (France) |

(continued).....

## G L O S S A R Y (continued)

| | | |
|---|---|---|
| Valeur locative | : | Rental value (France) |
| Wet op de Huurcommissies | : | Rent Officers (Netherlands) |
| Wohneigentumsquote | : | Proportion of houses in owner-occupation (West Germany). |
| Woonvergunning | : | Residence permits (Netherlands). |

## ABBREVIATIONS

| | | |
|---|---|---|
| A.P.L. | : | Aide personalisée au logement (Housing Allowance: France). |
| A.N.A.H. | : | Agence Nationale pour l'Amélioration de l'Habitat Existant (National Dwelling Improvement agency: France). |
| B.S.A. | : | Building Societies Association (United Kingdom). |
| d.c.p.r. | : | Dynamic cost price rents (Netherlands). |
| D.O.E. | : | Department of the Environment (United Kingdom). |
| E.C.U. | : | European Currency Unit. |
| E.E.C. | : | European Economic Community. |
| FW1 and FW2 | : | Förderungsweg, First and Second (West Germany) see Glossary. |
| G.D.P. | : | Gross domestic product. |
| G.F.C.F. | : | Gross fixed capital formation. |
| H.L.M. | : | Habitations à loyer modéré (Housing Association accommodation: France). |
| M.I.T.R. | : | Mortgage Interest Tax Relief. |
| M.T.R. | : | Marginal taxation rate. |
| N.P.H. | : | Non-profit housing. |
| O.E.C.D. | : | Organisation for Economic Co-operation and Development. |
| P.A.P. | : | Prêt Aides à l'Accession à la propriété (subsidised loan for owner-occupiers : France). |
| P.I.C. | : | Prêt Immobiliers Connventionnés (Subsidised building loan : France). |
| P.S.I. | : | Prêt Spéciaux Immédiates (Subsidised building loan : France. |
| U.N. | : | United Nations. |
| U.N.E.C.E. | : | United Nations Economic Commission for Europe. |

# CHAPTER ONE

# INTRODUCTION

**Contents** **Page**


1.1 The Purpose and scope of the study 8

1.2 Methodological issues 11

1.3 The structure of the study 14

## 1.1 The Purpose and Scope of the Study

The purpose of this investigation is to compare the aims, instruments and consequences of housing policy in selected countries in western Europe. The analysis will result in conclusions which are relevant to the future choice of policy instruments in the United Kingdom. The study thus has dual objectives: (a) a comparative analysis and (b) an assessment of the implications of this analysis for British housing policy. There have been many studies of housing policies in individual European states but very little work has been undertaken to collate and compare the experiences of different nations. A comparative analysis of the aims and effects of alternative policy instruments and the possibilities for reform is thus a unique and potentially valuable exercise.

There is little published information in the English language concerning housing policies in Europe. Those studies which are available have different perspectives to this investigation. Duclaud-Williams[1] in attempting to compare housing policies in France and Britain examined varying policy developments in each country in the post-war period against a background of changing political circumstances. Hallett[2] has compared policy in West Germany and Britain but has considered only rented housing and this without the degree of statistical information or analysis employed here. Donnison[3] described selected events

---

(1) Duclaud-Williams, R.H. (1978), 'The Politics of Housing in Britain and France', London, Heinemann.

(2) Hallett, G. (1977), 'Housing and Land Policies in West Germany and Britain', London, Macmillan.

(3) Donnison, D.V. (1967), 'The Government of Housing', London, Penguin.

in European countries to illustrate a series of arguments about the nature of housing problems and the roles adopted by governments in western and eastern Europe. Donnison and Ungerson[1] have contributed much in outlining some of the major social trends which shape Europe's housing 'needs' with much emphasis on demographic factors but they have not attempted detailed descriptions or analysis of the aims of policy or the range of policy instruments in different countries. Their comments on western Europe are in fact only part of a broad statement on the nature of housing policy, with the more detailed sections emphasising policies in the United Kingdom. The Building Societies Association[2] has published descriptions of housing finance systems in other countries, Fuerst[3] has edited a set of short essays on 'Public housing in Europe and America', and the O.E.C.D.[4] has investigated certain housing finance issues, but these studies while making important contributions to understanding, are, compared with this work, characterised by a narrower perspective and inevitably the less up-to-date nature of the information used. Compared to this investigation none of these studies attempts to be as comprehensive nor as clearly related to an analytical framework.

A number of British government publications have acknowledged the relevance of evidence from other countries to housing policy

---

(1) Donnison, D.V. and Ungerson, C. (1982), 'Housing Policy', London, Penguin.

(2) Building Societies Association (1979, 1980), 'An International Comparison of Housing Finance Systems' in B.S.A. Bulletins 20 and 21, October 1979 and January, 1980.

(3) Fuerst, J.S. (ed), (1974), 'Public Housing in Europe and America', London, Croom Helm.

(4) O.E.C.D. (1974), 'Housing Finance: Present Problems', Paris, O.E.C.D.

discussions in Britain. This includes, for example, 'The Report of the Committee on Housing in Greater London (1965)[1], 'Housing Policy: A Consultative Document' (1977)[2], and the 'House of Commons Environment Committee Report on the Private Rented Housing Sector' (1982)[3] but each of these reports has been able to make use of only a very small amount of information from abroad.

This work is an economic analysis of housing policy in the United Kingdom, West Germany, France, the Netherlands, Denmark, and The Republic of Ireland. It covers both the rented and owner-occupied sectors. The Republic of Ireland is referred to throughout simply as 'Ireland' as it is in United Nations statistical publications. While the United Kingdom is a basic unit of consideration and most of the internationally comparable statistics relate to the United Kingdom, on some issues such as rent controls and housing allowances the detailed information used is more precisely relevant to England and Wales. This is made clear at appropriate points in the text. The choice of countries is such that dramatic institutional differences have been avoided and it has been possible to make use of broadly comparable sets of data. The countries included are generally termed 'mixed economies' and have pursued similar policy objectives but have used a variety of instruments. Much of the data presented covers the period 1950 to 1979 although some of the more detailed

---

(1) H.M.S.O. (1965), 'Report of the Committee on Housing in Greater London', Cmnd 2605.

(2) H.M.S.O. (1977) 'Housing Policy:A Consultative Document', Cmnd 6851.

(3) H.M.S.O. (1982), 'House of Commons: First Report from the Environment Committee Session 1981-82, The Private Rented Housing Sector', HC 40-1, HC40 i-vi.

analysis concentrates on the period 1960 to 1979.

A wide range of source material has been used in the preparation of this disquisition. National governments, international organisations, research groups and individual academics have provided a large amount of information in letters, copies of reports and unpublished documents. Statistics have been gathered from many sources including government departments, The United Nations Economic Commission for Europe and the European Economic Community. The material that has been of greatest value is listed in the Bibliography. A lot of the evidence has been obtained as a result of discussions on visits abroad. A list of those who provided information is given in Appendix A. As part of this research some foreign policy analyses have been translated into English. The twelve separate translations that have been carried out have been published by the British Library and are listed in Appendix B.

## 1.2 Methodological Issues

The questions of methodology involved in this work are a combination of those involved in any policy analysis and any international comparative study. It can be argued that either of these are formidable in isolation but much more so taken together. Sceptics might even raise certain methodological issues to question the validity of this sort of research.

Three sets of arguments can be anticipated. These concern:-

(a) Institutional differences

(b) The comparability of statistics

(c) Quantifying the degree of government activity in housing markets.

These will be discussed in turn.

Firstly, it might be suggested that institutional differences between countries are such that explanations of varying policy outcomes lie in areas outside the scope of this analysis. This study is more concerned with differences in policy actions by governments and changes in economic variables than with detailed differences in institutional arrangements. It might, however, be argued that institutional factors explain, for example, the varying rates of decline of the rented sector and growth of owner-occupation rather than the cost and availability of credit, building costs, rental levels and the other items considered in this study. However, for the countries considered the institutional differences are not of overwhelming importance, and those significant differences which do exist are not ignored. Institutional factors may have some influence on such variables as the cost and availability of credit and building costs and are thus indirectly taken into account. Cultural, demographic and other miscellaneous factors do, of course, all play a part in influencing housing investment and consumption but the emphasis of this study is on those explanatory economic factors for which information has been obtained.

Secondly, it might be argued that statistics are not comparable between countries because measurement is not on a consistent basis. For some time series this is correct and this is recognised at appropriate stages in the analysis. There is not, for instance, a common agreed definition of what constitutes the 'private rented sector'. A number of alternative definitions

together with their respective statistics are therefore presented and from these appropriate conclusions are drawn. There are other items for which comparative statistics are not published by international organisations or national governments. House prices are a major example. Here much effort has gone into compiling a set of indices after consulting government departments and research workers in several countries. To take another example, meaningful precise cardinal values cannot be assigned to 'the cost and availability of credit'.

It is, however, possible to judge that in some countries at certain times credit has been cheaper and more easily available than in other countries and, on this basis, dummy variables have been used. This is, however, only one item in one part of the study. The major point is that most of the statistics used *are* collected and published within a common framework according to consistent definitions. The building-cost, rent, housing production, and income figures, for example, are compiled by the United Nations according to a common proforma and other sets of consistent data from Eurostat (Statistical office of the E.E.C) and O.E.C.D. have been used. These statistics are sufficiently comparable to allow certain comparisons to be made.

Thirdly, it could be suggested that a study of this sort, comparing the impact of policy in different countries, might well at some point require some measure or measures of the degree of government activity or intervention in housing markets. It will be shown, however, that such measurement is most difficult and is of doubtful value, largely because the means of

intervention vary significantly from country to country. Particular difficulties are attached to the valuation of 'indirect subsidies' which may, for example, exist because of tax concessions or rent restrictions. It will be shown that varying definitions of both 'subsidies' and 'government spending on housing' together with, for these items, an associated lack of consistent data prohibit definitive statements about whether government intervenes more or less in the housing market in, say, West Germany than in the United Kingdom.

What is important, however, is that the type of intervention is different and this influences the pricing, production, and allocation of housing in different ways, and on this there is information. Where similar policy instruments are used some judgements about the relative magnitudes of the measures are possible. With housing allowances, for example, the comparative value of the payments in relation to incomes and rents can be assessed and some relevant statistics are presented.

## 1.3 The Structure of the Study

The structure of the study emphasises the relationships between the objectives of housing policy, perceptions of housing problems, the choice of policy instruments and policy outcomes. The analysis begins in Chapter Two with an investigation of the aims and objectives of housing policy in the six different countries. The broad objectives of policy are shown to be remarkably similar as are some of the more detailed aims. Chapter Three examines the perceptions of the causes of housing problems. These differ within and between countries. It is shown that housing policy has been viewed variously as a problem of the relationship between incomes and housing costs, a problem of the level of housing production,

a problem of the cost and supply of funds from the capital market, and a problem of the distribution of the housing stock. It is suggested in Chapter Four that different perceptions are associated with different mixtures of policy instruments and a synopsis of the different housing policy instruments in use is set out.

In the course of the analysis, many indicators of policy outcomes are employed including housing construction and investment statistics, proxies for the quality of the stock, measures of expenditure on housing and changes in tenure distribution. It will be argued that varying outcomes are associated with differing policy instruments. In particular, the concentration in the United Kingdom on policies which boost demand contrast with measures in other countries which directly encourage supply and it will be concluded that this helps to explain Britain's relatively high levels of housing expenditure but low levels of housing investment.

The analysis will show that two sets of instruments have been used in relation to the rented sector in all the countries studied. These are measures to control rents and attempts to assist households by means of housing allowances. In detail, however, the policies have operated in different ways. Chapter Five investigates rent policies and Chapter Six examines housing allowances. The analyses of these chapters help to evaluate a number of propositions including the contentions that

(a) rent controls are a major cause of the decline of the private rented sector, and

(b) housing allowances are a means of distributing assistance so that subsidies are concentrated on those in greatest 'need'.

These chapters also establish important relationships between rent determination policies and the function and structure of housing allowance systems.

The study will reveal that, in recent years, the one aim of housing policy that has been consistent and common to all governments in all the countries considered is an increase in owner-occupation. Chapter Seven considers the reasons for differing rates of growth of owner-occupation and how governments can and do influence the level of home-ownership. A major part of this chapter is a detailed econometric analysis of the determinants of the rates of growth of the demand and supply of owner-occupied dwellings using both temporal and cross-country data. The regression analysis employed provides supporting evidence for conclusions about the relative importance of possible explanatory variables and this has significant implications for the choice of policy instruments.

Chapter Eight summarises the major findings of this investigation. It stresses the essential differences in approach between the United Kingdom and the other countries and the relevance of the analysis to both an understanding of the consequences of previous policy decisions and to the future choice of policy instruments in the United Kingdom.

# CHAPTER TWO

# THE AIMS AND OBJECTIVES OF HOUSING POLICY

Contents


| | | Page |
|---|---|---|
| 2.1 | Introduction | 18 |
| 2.2 | Policy objectives | 19 |
| 2.3 | Policy aims | 23 |
| 2.4 | Conclusions | 38 |
| Table 2.1 | 'Public Housing' c.1977 as a percentage of the housing stock. | 36 |

## 2.1 Introduction

This chapter examines the goals of housing policy in the United Kingdom, West Germany, France, the Netherlands, Denmark, and Ireland. The word 'objective' will be used to refer to a goal the attainment of which is an overall purpose of policy. 'Aims' are to be viewed as subordinate to objectives and are more specific goals, the achievement of which may lead to the realisation of the objective. Identifying housing policy goals has involved examining policy documents produced by the governments of each country. The investigation seeks to discover the extent to which goals differ between countries.

The broad objectives of policy are set out first and then the more detailed aims. The evidence presented will demonstrate the difficulty governments have in defining their objectives precisely and it will show that governments rarely acknowledge explicitly the potential conflicts between different housing policy aims and other aims. In the United Nations 'Human Settlements'(1) publication in 1976 it was argued that two types of housing policy existed in post-war western Europe: 'social' and 'comprehensive'. The former, it was maintained, helped only selected groups that had housing difficulties while the latter was more positively interventionist and was concerned with all housing production and allocation. The material in this chapter will help to appraise the validity of such a distinction.

---

(1) United Nations Economic Commission for Europe (1976), 'Human Settlements in Europe: Post-war trends and policies', pp. 58-59.

## 2.2 Policy Objectives

The United Nations publication argued that there are in western Europe "no universally accepted principles of housing policy and no uniform housing system".(1) While this may be true in terms of the diversity of instruments and institutional arrangements, the broad objectives of policy are, in fact, remarkably similar from country to country.

The following statements made by national governments in the 1970's illustrate this claim:-

(A) "The government believe that all families should be able to obtain a decent home at a price within their means" (United Kingdom).(2)

(B) "One of the social objectives highest on the list of Danish priorities is the provision of a good and sanitary dwelling to meet the needs and economy of the individual family" (Denmark).(3)

(C) "Proper housing accommodation must be available to any person over the age of eighteen and at a price compatible with his income"(Netherlands).(4)

---

(1) United Nations Economic Commission for Europe (1976), op.cit. p.53.

(2) H.M.S.O. (1977), 'Housing Policy: A Consultative Document', Cmnd. 6851, p.1.

(3) Ministry of Housing, Ministry of the Environment, National Agency for Physical Planning, Copenhagen (1976), 'Denmark's National Report to 'Habitat'.' p.19.

(4) Ministry of Housing and Physical Planning, The Hague (1976), 'Housing in the Netherlands', p.5.

(D) "The basic aim of the government's housing policy is to ensure that, as far as the resources of the economy permit, every family can obtain a dwelling of a good standard located in an acceptable environment, at a price or rent they can afford" (Ireland).[1]

(E) The principal goal of policy is "to improve the housing supply up to certain minimum standards for those households whose housing would without assistance be sub-standard or deteriorate to such a degree that the occupants would see themselves as underprivileged or would be deprived of the chance to live under conditions favourable to satisfying human life". (West Germany).[2]

The statements express a desire that a minimum number of dwellings (let this be q) of an acceptable minimum standard (let this be Q) should be available at a 'satisfactory' price (let this be p). q and Q have minimum implicit values and p an implicit maximum value, and no trade-off between them is acknowledged. There is no suggestion for example, that less than q will be accepted as long as Q and p hold. Few attempts are made to specify values for q, Q and p in any detail; in particular there is typically no attempt to define quality. Some elaboration of such terms as 'decent','good and sanitary' and 'of a good standard' might be sought by examining the interpretation of 'sub-standard' in government surveys of the housing stock or in legislation which requires minimum standards, but wide variations

---

(1) Department of the Environment, Dublin (1978), 'Current trends and policies in the field of housing, building and planning, Ireland,p.3.

(2) Dick, E. (1977), (Civil Servant, Federal Ministry for Regional Planning, Building and Urban Development, Federal Republic of Germany), 'Distribution of Housing costs between the Public Sector and Individuals'.Discussion paper prepared for U.N.E.C.E. Seminar on Housing Policy, Turku, Finland, July, 1977, p.3.

in interpretation are always possible and unfortunately likely. Quality is inevitably an imprecise term and therefore difficult to quantify but it is an essential ingredient of policy and comprehensive policy analysis must make use of quality indicators.

The price/rent variable, p, is rarely defined precisely. A 'price within their means', 'a price compatible with his income' or 'a price or rent they can afford' might mean :-

(a) What the individual decides he can afford (let this be pc), or

(b) What the government deems he ought to pay or ought to be able to afford (let this be pg).

A definite commitment to pc would imply an open-ended subsidy system if pc always purchased quantities and/or quality less than q and/or Q. Some governments have defined a 'pg' type value with respect to a particular housing sector or section of the population by defining p as a maximum proportion of income to be paid by households, the difference between this and cost being made up by the state. This is an element of various housing allowance schemes. In the Netherlands, for example, the maximum proportion of taxable income to be paid in rent under the 'individual subsidy scheme' is 17 per cent. This and other housing allowance schemes will be examined in Chapter Six.

The statement from Ireland (D) is a little different from the others in that it explicitly recognises a national resource constraint. The housing objective is not absolute, as in other statements, and there is recognition of the fact that this objective may be sacrificed to some other non-housing goal.

There is some significance in the fact that the word 'family' is used in statements A, B and D. The 'family' has typically been the

focus of post-war housing policy in some countries, especially in the United Kingdom. This is symptomatic of an approach to policy which fails to emphasise the problems of particular groups who may have difficulty in obtaining access to 'decent' housing. It might be argued that very specific groups should not be identified in general policy statements but the reference to the 'family' as the unit of policy action does tend to exclude many individuals from the frame of reference and the generalisation masks the specific problems of, for example, single people and low income groups.

The Dutch have a less general approach in that they are concerned with 'every person over the age of eighteen' and do have policies for 'special groups' who may find it difficult to obtain housing of 'socially acceptable standards' in the market place. They are the aged (over 65 years), physically handicapped, single persons and migrants. There has also been some discussion in West Germany about concentrating housing policy on certain 'target groups'; for example "poor people, old people with low incomes, large families and disabled people".(1) There is further discussion of specific groups in section 2.3(iii).

Policy statements from government sources typically fail to recognise the opportunity costs of achieving goals. This is as true of choices between housing and non-housing objectives as it is between different housing aims. Housing goals may be sacrificed in a premeditated fashion or as an unintended consequence of the pursuit of another dominant goal or they may be subsumed in a grander 'National Economic Plan' or 'Regional Planning Framework'. The extreme version of this 'model' for housing policy is more nearly approached in eastern than in western Europe but, in France, the detail of housing policy is

---

(1) Pfeiffer, U.(1976), (Head of the Housing Division, Federal Ministry for Regional Planning, Building and Urban Development, Federal Republic of Germany), 'Housing policy in the affluent society' Translation supplied by the author, p.2.

secondary to the objectives of national planning and has to be formulated within the context of the national plans.

## 2.3 Policy Aims

Certain aims have been pursued at some time in the post-war period in each of the countries under consideration. These aims will now be listed and examined.

(i) The construction of new dwellings.

(ii) The improvement of the existing stock.

(iii) A reduction in specific shortages identified either

(a) with respect to particular locations, or

(b) as experienced by particular social or economic groups.

(iv) Promotion of the mobility of tenants.

(v) Achievement of equity in the treatment of different tenure groups.

(vi) Encouragement of the supply of 'non-profit' or 'public' housing.

(vii) Promotion of an increase in the proportion of households in owner-occupied accommodation.

### (i) New housing

After the Second World War, the principal aim of housing policy in each country was to increase the rate of production of new houses. Governments typically assessed current housing 'needs' by forecasting the number of households and surveying the stock to determine the number of habitable dwellings. The excess of households over dwellings determined the 'crude housing shortage'. Building new houses to reduce this

shortage was, throughout Europe, seen as the key to success in housing policy. In the 1950s and 1960s many governments set annual dwelling production targets and became heavily involved in subsidy programmes designed to help meet these targets. In general election campaigns in the United Kingdom political parties attempted to outbid one another in pledges to build so many thousand houses in the subsequent five years.

The rate of house building increased steadily from the mid 1950s and 'peaked' in each country sometime between 1968 and 1973. After this, most countries experienced falls in annual output as costs escalated rapidly and the policy emphasis switched to improvement. Ireland was an exception in that output continued to increase up to 1975 but fell back in 1978. The reasons for the changes in output will be examined in subsequent chapters.

Production targets in more recent years have usually been stated in less unequivocal terms. In some cases they have been replaced by statements of 'requirements', or more general acknowledgements that new building must continue. The West German government stated that the 'medium term' (not defined) housing requirement from 1979 was approximately 400,000 dwellings per annum. The Danish Housing Ministry has argued that about 40,000 dwellings per annum should be built up to 1990. In Ireland there is a continuing emphasis on new building. The Irish government has claimed that "government policy is to maintain annual output at a level of

approximately 25,000 units in order to eliminate the remaining backlog of housing need as soon as it is reasonably practicable".(1) The other governments fail to mention specific figures either as 'requirements' or 'targets'. Although all suggest new building is necessary they state that it must be compatible with macro-economic policy objectives. A recurring theme in much of the policy literature, with the exception of Ireland, is that concern with quantity has been largely replaced by concern with quality.

(ii) Improvement

For each country, there are policy statements, issued in the 1970s, which argue for an increasing emphasis on improving the housing stock, on modernisation, and on increasing standards by installing basic facilities such as inside W.C.'s and fixed baths or showers in more houses. In many cases the emphasis is not merely on physical structures but on neighbourhoods as well, with combined programmes for dwelling and environmental improvements. The Dutch 1975 U.N.E.C.E. memorandum(2) is typical in taking the view that with the quantitative housing shortage, which had existed since the war, eliminated, policy makers' attention and resources should turn to improving existing dwellings and their environments. French governments have been especially concerned about housing quality with the housing census and

---

(1) Department of Local Goverment, Dublin (1976), 'Current trends and policies in the field of housing, building and planning, Ireland', p.12.

(2) Ministry of Housing and Physical Planning, The Hague (1975), 'Current trends and policies in housing and building'.

the 'Nora Report'(1) revealing large proportions of the stock 'unfit' or in need of basic amenities.

The Danish government has argued that, with much new housing having been built in the 1960s, now "the more pressing demand is for more urban renewal on a scale hitherto unknown".(2) There are, however, in this case, both housing and 'non-housing' reasons for the shift of emphasis from quantity to quality. It is argued, in the 1977 Danish U.N.E.C.E. memorandum, that "Urban renewal creates more jobs per unit of investment, and repair and maintenance is more labour intensive and less a strain on foreign reserves than new building".(3)

The 1979 West German U.N.E.C.E. memorandum echoes previous memoranda in stating that a principal aim of Federal government housing policy is "preservation of the housing stock worth preserving while at the same time implementing suitable modernisation and renewal measures to improve the neighbourhood environment".(4)

A persistent implication in official statements is that more 'quality' and less emphasis on 'quantity' means more renovation and less new building but there is, of course, no reason why, over time, the quality of the stock should not be

---

(1) See: Nora, S., and Evento, B. (1975), 'L'Amélioration de l'habitat ancien', La Documentation Française.

(2) Ministry of Housing, Ministry of the Environment, Copenhagen (1977), 'Current trends and policies in the field of housing, building and planning', p.3

(3) ibid.

(4) Federal Ministry for Regional Plannning, Building and Urban Development, and Federal Ministry for Economics, Bonn (1979) 'Current trends and policies in the field of housing, building and planning, Federal Republic of Germany', p.3.

improved by new building and possibly demolition. Policy makers' confusions are compounded by academics' models of the renovation versus rebuilding choice which demonstrate the quantity benefits, over time, of devoting resources to improvement or new building. Logical policy analysis requires an integration of the quantity and quality consequences of alternative resource allocations.

(iii) Specific shortages

A recurring theme in policy statements is the notion that an excess of dwellings over households has produced a situation in which there is no longer an 'overall' housing shortage but rather 'specific' shortages; specific to particular locations or certain social or income groups. In relation to West Germany, it has been argued that "Despite the statistical equilibrium between housing supply and demand there are still considerable disparities in certain segments of the housing market. The elimination of these discrepancies has now become the main objective of all housing policy".(1) It is argued that there are regional differences between demand and supply and that elderly people and large families, in particular, lack the resources to obtain appropriate accommodation.

The West German civil servant who was responsible for housing

---

(1) Von Neubeck-Hohlefelder, A. (1978), 'Housing Forecasting and Programming'. Paper prepared for U.N.E.C.E., Geneva: supplied by Federal Ministry for Regional Planning, Building and Urban Development, Bonn.

policy in the 1970s, U. Pfeiffer,(1) has argued that housing problems are now concentrated in large urban areas and are particularly severe in town centres where the 'payment gap', between the housing payment that can be 'afforded' and the costs of modernising and maintaining housing of an acceptable quality, is particularly wide.

Families with more than two children are recognised as having particular problems in France, for example, where they can obtain especially favourable housing allowances and priority in access to the government subsidised Habitation à Loyer Modéré (H.L.M.) rented dwellings. In Ireland, large families in council houses are among those households given priority with assistance to become owner-occupiers. Dutch policy, as indicated above, recognises the special needs of certain groups such as the elderly, physically handicapped, and migrant workers.

A U.N.E.C.E: seminar in 1976, devoted to 'Housing for Special Groups', discussed the needs of such groups as the elderly, handicapped, and single people. It was argued that "Governments pre-occupied since the war with building for families, had tended to give second place to special housing needs until they had more time or resources for them or until the statistical and social pressures forced these special needs to their

---

(1) Pfeiffer, U. (1976), op. cit.

attention".(1) The group of assembled international experts concluded that housing policy in Europe would be increasingly concentrated on 'special groups' and resources should be allocated to the assessment of the current requirements and forecasting of the future needs of these groups.

In 1974 a European Communities report on housing policy devoted one of its five chapters to 'The housing of foreign workers'.(2) This concentrated on itemising the lack of discrimination required by law in each country and giving information on the provision of special accommodation for such workers, most of which was of a hostel type. The West German 'Guest workers' have provided the numerically largest example of the temporary influx of labour. The housing problems are of a different order when the migration is more permanent and is, as has been the case in the Netherlands and the United Kingdom in particular, associated with particular ethnic groups.

The 'social groups' and 'geographic' dimensions to specific shortages combine to comprise part of the 'inner city problem' identified in recent years not only in Britain but in many large conurbations in western Europe. The correspondence between housing policy and urban planning policy has led the West German government to argue that housing policy can be viewed as part of a process via which wider 'planning' goals

---

(1) United Nations (1976), 'Housing for Special Groups' (Proceedings of U.N.E.C.E. seminar), published as a book by Pergamon Press, (1976), p.15.

(2) Thuenissen, A.R.A. (1974), 'Financial Intervention by the Authorities of the Member States in the Field of Social Housing', Commission of the European Communities, Brussels.

are pursued. Thus "The federal government considers it more than ever before one of its main tasks to link housing construction policy with urban development policy". Even though housing construction policy has always been regarded as an *element* of urban development it has seldom been considered as one of its *instruments*".(1). Modernisation polices are typically concentrated in particular parts of towns whether it be the West German 'Focal Point', the Dutch "Renewal Area' or the British 'Housing Action Area'.

The United Kingdom's 'Housing Policy Green Paper' (1977) acknowledged the case for a more 'selective' approach to policy which gave special help to specific groups and locations. It was argued that "a national approach can draw attention and resources away from the areas with the most pressing needs".(2) Inner city areas were seen as having particularly severe housing problems. These groups facing special housing difficulties were identified as lower income households, homeless people, one parent families, battered women, the physically handicapped, the mentally ill and mentally handicapped, old people, single people, mobile workers, and ethnic minorities. While it was argued that any national housing policy is likely to be judged by how far it helps those facing the most pressing problems, in practice policy action in the United Kingdom has been characterised by a comparatively non-selective approach; 'blanket' policy instruments have predominated.

---

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1978), 'Current trends in the field of housing, building, and planning'; Federal Republic of Germany p.4.

(2) H.M.S.O. (1977), op.cit., p.7.

(iv) Tenant Mobility

There are both equity and efficiency motives associated with attempts by governments to encourage greater mobility within the private - and public - rented sectors. The equity aspect has typically involved arguments about tenants on high incomes living in low rent accommodation. In the Netherlands there have been specific measures to promote a more equitable relationship between income levels and the size and quality of dwelling occupied, and to reduce the immobility associated with those on relatively high incomes staying put in subsidised dwellings, thereby not releasing this accommodation for those on lower incomes.

The analysis of this issue has been very similar in Denmark where 'Housing Pacts' between the major political parties in the 1966 and 1975 demonstrated the political desire to encourage greater mobility within the housing stock by 'rent harmonisation' and the introduction of individual subsidies for tenants. In both countries, rents have been related to historic building costs and thus older cheaper accommodation has proved attractive to occupants who perhaps gained a tenancy some years ago, when their incomes were lower.

So important has this 'rent-gap' issue been in the Netherlands and Denmark, and to a lesser extent in West Germany, that it is tempting to identify the wish to close the rent-gap as a separate aim of policy. However, the ultimate aim is to improve mobility and to obtain a more equitable and efficient use of the stock, including ensuring that large amounts of newer accommodation are not left vacant because of high rents. There is an examination

of this issue in relation to rent determination policies in Chapter Five.

In France the alleged inequity of persons with incomes that are 'too high' living in H.L.M. accommodation led to the imposition of a 'sur-loyer' or penalty payment which tenants might be required to pay on top of the normal rent once their income reached a certain level. Now in France, as in West Germany, the Netherlands, and Denmark these issues of the relationship between incomes and rents and the effect of this relationship on mobility is being tackled by policies designed to relate payments more directly to income levels. This is being done by the introduction of individual rent subsidies. These will be examined in Chapter Six.

An efficiency aspect of tenant mobility, apparent particularly in the West German literature, is a desire to ensure that poor access to housing does not impede industrial and geographical mobility of labour. This is one of the reasons advanced for promoting an increased surplus of dwellings over households; some surplus in the system being viewed as a necessary condition for mobility. The British 'Green Paper' expressed a similar concern for the relationship between housing and labour market mobility : "We must increase the scope for mobility in housing. It is essential, in a period of industrial change, that workers should be able to move house to change their job".(1)

---

(1) H.M.S.O. (1977), op. cit., p.8.

(v) Equity between tenure groups

The virtues of allowing consumers free choice between different types of housing and of government adopting an 'even-handed' approach to alternative tenures have been expressed most explicitly in the Netherlands and Denmark. The Dutch, for instance, have argued that "The point whether one prefers to live in a rented dwelling or in a privately owned dwelling is not essential for the government. The policy aims to encourage the building of sound housing in the proper places and at acceptable prices without any other distinction being made"(1) and "The government endeavours to create choice between rental and ownership housing without any unjustified difference of treatment".(2) The Danish 'Housing Pact' of 1975 sought, inter alia, to bring the proportion of income spent on housing by owner-occupiers more into line with that spent by tenants, which amounted to seeking to increase the proportion of income spent on housing by owner-occupiers. In Denmark, the issue of equity between non-profit housing association tenants and owner-occupiers has been particularly important because of the arguments voiced by the politically significant federation of non-profit tenants. The federation claims that owner-occupiers receive unfairly beneficial treatment largely as a consequence of mortgage interest tax relief.

The United Kingdom's 'Green Paper' declared that "We must make it easier for people to obtain the tenure they want. More and

---

(1) Ministry of Housing and Physical Planning, The Hague (1975), op. cit. p.8.

(2) Ministry of Housing and Physical Planning, The Hague (1977) 'Current trends and policies in the field of housing building and planning', p.6.

more people would like to become home owners, or to enter the newer forms of tenure combining some of the advantages of home ownership with renting" and goes on to argue that "This will involve widening the way into home ownership; further development of 'intermediate'forms of tenure such as co-operative and co-ownership and equity sharing; and the continuing provision of public rented sector housing for a wide cross-section of the population".(1)

Taking these statements together, we have a number of different interpretations of equity. They suggest that, in relation to housing policy generally, four aspects of equity can be identified:-

(a) An equitable relationship between the incentives given by government towards housing consumption: a concern not to give more incentive to one tenure than another.

This conflicts directly with the objective of encouraging owner-occupation unless there is evidence that owner-occupation has previously been 'under subsidised'. Chapter Seven examines the particular incentives given to promote an increase in the size of the owner-occupied sector in different countries.

(b) An equitable relationship between the payments for different units of accommodation.

This amounts to a concern that rent levels or prices adequately reflect the size and quality of accommodation. A

---

(1) H.M.S.O. (1977), op.cit., p.8

particular concern with a pattern of relationships between rents and the quality of accommodation has led some countries to introduce 'rent harmonisation policies', as Chapter Five will explain.

(c) An equitable relationship between the proportion of income spent on housing by different households.

The particular perceived inequity is that of low income households paying a high proportion of income for accommodation while higher income households are devoting a lower proportion of income to housing. This issue has been tackled in some countries by housing allowance schemes and these will be discussed in Chapter Six.

(d) An equitable physical distribution of the housing stocks.

This amounts primarily to a concern with the relationship between household size and dwelling size; an issue which, again, has been tackled in some countries by housing allowances which effectively give extra resources to larger (and lower income) households to enable them to acquire 'reasonable accommodation'.

In operational terms, each of these notions of equity is vague. In practice, governments have introduced measures which have hindered supply in certain tenures and encouraged supply and reduced price in others. It is difficult to reconcile propositions of equity between tenures with the attempts, in each of the countries, to encourage owner-occupation. This may be defended in terms of 'giving people what they want' but no choice is made independently of the incentives which favour that choice.

(vi) Encouragement of the supply of 'non-profit' or 'public' housing

In each of the countries, the state has been committed in the post-war period to supplementing the market supply of rented accommodation by low rent 'non-profit' or public housing. In West Germany, the Netherlands, Denmark, and France the involvement has been mainly in the form of financial support for non-profit housing associations run by bodies legally separate from government whereas in the United Kingdom and Ireland the State has been more directly involved by providing local authority (1) dwellings. The direct state ownership of housing is less than 3 per cent of the stock in West Germany, Denmark, and France, about 12 per cent in the Netherlands, 15 per cent in Ireland and over 30 per cent in the United Kingdom. The approximate proportions of the stock held by the state and non-profit housing associations, combined, around 1977 are shown in Table 2.1.

Table 2.1 : 'Public Housing' c.1977 as a percentage of the housing stock.

| | |
|---|---|
| West Germany | 20 |
| Netherlands | 36 |
| Denmark | 20 |
| France | 11 |
| Ireland | 15 |
| United Kingdom | 32 |

Source: National Governments and direct communications. (Detailed sources are given in the Appendix to Chapter Five: Rented housing stock: statistics.)

This housing is often referred to in policy discussions as 'public housing'. It seems that in recent years some governments have

(1) The term 'local authority' is used throughout this work to describe in the U.K. context local *housing* authorities.

become less committed to public housing and the purpose of such housing has been increasingly under review. A major issue is whether 'public' housing is primarily for lower income groups. The Danish and Dutch literature contains much support for the notion that a wide cross-section of households should have access to such housing while the French tradition is more allied to the view that public housing is for those unable to afford the alternatives.

In both Ireland and the United Kingdom sales of council houses have been encouraged and public expenditure limitations seem likely to impede the growth of this sector. In West Germany, the Netherlands, Denmark and France a principal focus of attention is whether aid should go mainly to households in an income-related fashion or constitute capital and rent subsidies. This is the 'subject' versus 'object' subsidies debate which will be taken up in later chapters. With housing allowance schemes gaining strength in each country, the subject subsidy approach has gained much ground. This is viewed by non-profit housing movements with some apprehension as it threatens the level of direct support for their dwellings.

As an aim of policy, the provision of public housing is now granted less emphasis than in the past. There has been a marked switch towards policies to promote owner-occupation.

(vii) Promoting Owner-Occupation

The promotion of owner-occupation is currently a most significant aim of policy. All the countries have policies designed specifically to increase the proportion of the housing stock held by

owner-occupiers. Statements of support for owner-occupation abound in the literature produced by each government, although in Denmark there are strong views of dissent from supporters of non-profit housing who consider the aid to owner-occupation too strong. Recent submissions to the U.N.E.C.E. claim, quite unequivocally, that the promotion of owner-occupation is a major aim of policy. The West Germans and the Dutch are concerned about their levels of home ownership being lower than in other European countries. The French government has expressed an enthusiasm for owner-occupation typical of all the other governments with its declaration that it intends "to make home ownership a real possibility for every Frenchman".(1) The growth of owner occupation in each country is examined in Chapter Seven. In the United Kingdom the election manifestos of the two main political parties since 1945 have emphasised two housing aims: building more houses and increasing owner-occupation.(2) In recent years house building has been given less emphasis but increased home-ownership continues to be a major objective of the principal political parties.

## 2.4 Conclusions

A United Nations publication argued in 1976 that two types of housing policy were apparent in post-war western Europe. These were 'social' and 'comprehensive policies'. The United Kingdom and Ireland were given as examples of countries following social policies which were characterised by a general commitment to build or subsidise a proportion of housing output "with the aim of helping selected groups of the

---

(1) Ministèrie De L'Environment et Du Cadre De Vié, Paris (1978), 'Current Trends and Policies in the Field of Housing, Building and Planning', p.1.

(2) See Craig, F.W.S. (1975), 'British General Election Manifestos 1900-74', London, Macmillan.

population with particular needs or financial problems obtain housing under special conditions". With comprehensive policies, of which the French, West German, and Dutch cases were cited as examples, the significant feature is that "the government's programme takes account of the entire situation in making plans; by positive intervention the rate of house-building, by all agencies, is controlled, the location of new building is determined and the allocation of new and existing houses can, in certain circumstances, be subject to some form of control usually at local level".(1)

The evidence used here to examine policies does not support such a distinction. Indeed it seems misleading to make such a division between 'social' and 'comprehensive policies'. Intervention in the United Kingdom and Ireland has been, for instance, much more 'positive' than that in France, West Germany, and the Netherlands in the sense that there is more direct influence over the housing stock via the relatively high proportions of state housing. It is certainly not the case, however, that British housing policy has been particularly aimed at helping 'selected groups in the population' with special needs. Much is left to the market in all these countries and certainly in no case is the rate of building so strongly manipulated as to warrant the term 'controlled'.

Rather than a grouping or division of the countries, an examination of the goals of policy reveals much similarity between nations. Each subscribes to a generalised objective of helping households obtain

---

(1) United Nations Economic Commission for Europe (1976), op.cit., pp. 58-59.

decent accommodation at reasonable prices. Building more houses, improving the quality of the stock and encouraging owner-occupation have been,together with the other aims set out in Section 2.3, common to all the countries. The emphasis on specific aims varies, of course, between countries but one could not claim that the aims of housing policy are startlingly different in any of the countries. The position might be summarised by stating that all countries have

(a) A supply objective, related to the size and quality of the stock, and

(b) Equity objectives related to the distribution of the stock, the relative prices paid for housing services from different parts of the stock, and the payments made for housing services by households in differing personal circumstances.

The aims of Section 2.3 could be seen as elaborations of these two main points.

There have, over time, been changes in the emphasis given to particular aims. After the Second World War, and in the 1950s there was great emphasis in each country on house building and increasing the number of houses completed each year. In the 1960s and 1970s more emphasis was gradually attached to improving the quality of the stock and many governments decided to try and do this by subsidising renovation of the existing stock. In all the countries there was, in the 1970s, an increased emphasis on achieving a distribution of housing subsidies that concentrates assistance on those households that are deemed to be in greatest need. Another aim of policy, which became increasingly significant in the 1960s and 1970s was that of increasing owner-occupation.

Changes in the political complexion of the government in power obviously brought about some changes in the emphasis given to particular aims. Some governments have, for example, been more inclined to declare their support for non-profit housing than others, but it has been changes in emphasis rather than the outright rejection of any of the aims in section 2.3 that have characterised the housing policy goals of specific administrations. In none of the countries would a post-war government have dissented from the view that the principal objective of housing policy is to achieve, for all households, a reasonable standard of accommodation at a price within their means. Rarely, however, do governments explain what they mean by this.

Government statements of aims and objectives are vague. Terms like 'quality of accommodation' and 'a price within household's means' are always left ill-defined. The aims are not usually susceptible to quantitative appraisal. Governments tend not to set themselves operational targets now that specific house building aims are rarely declared.

Housing policy is always subject to constraints imposed by other policy objectives. Within housing policy, many goals are pursued simultaneously. There is thus scope for conflict between housing policy and other policy goals and for conflicts within housing policy. The extent of such conflict will depend on:

(a) An analysis of the nature of the housing problem and the factors which necessitate the use of policy instruments.

(b) An analysis of the alternative policy instruments available for the pursuit of policy objectives.

(a) is the subject matter of Chapter Three; (b) that of Chapter Four.

# CHAPTER THREE

# PERCEPTIONS OF HOUSING PROBLEMS

Contents


| | | page |
|---|---|---|
| 3.1 | Introduction | 45 |
| 3.2 | The relationship between incomes and costs | 49 |
| 3.3 | The level of production | 70 |
| 3.4 | The cost and availability of credit | 82 |
| 3.5 | Allocation 'inefficiencies' and 'inequities' | 87 |
| 3.6 | Conclusions | 93 |


## List of Tables


| | | |
|---|---|---|
| Table 3.1 | Incomes per head | 52 |
| Table 3.2 | Costs of 'new building in 'man years per dwelling' | 52 |
| Table 3.3 | Building costs, rents, and prices 1963-1981 | 59 |
| Table 3.4 | Rents and building costs in real terms 1963-1980 | 60 |
| Table 3.5 | Rents and building costs compared with incomes 1963-1979 | 61 |
| Table 3.6 | Rent/Income elasticities | 62 |
| Table 3.7 | Gross rent and water charges as a percentage of final household consumption at constant prices | 62 |
| Table 3.8 | Price, volume and value indices for gross rent and water charges | 67 |
| Table 3.9 | Price indices of final consumption by households | 68 |
| Table 3.10 | Gross rents and water charges in real terms | 68 |
| Table 3.11 | Increases in dwelling stock per 1,000 inhabitants | 71 |
| Table 3.12 | Size of dwellings | 72 |


continued....

Contents (Cont.)


| | | Page |
|---|---|---|
| Table 3.13 | Pre-1919 dwelling as percentage of the housing stock c. 1977 | 72 |
| Table 3.14 | Percentage of 'occupied conventional dwellings' with given amenities | 76 |
| Table 3.15 | Rooms in additional dwellings | 77 |
| Table 3.16 | Density of occupation | 90 |


List of Figures


| | | |
|---|---|---|
| Figure 3.1 | Real Incomes 1963-1979 | 54 |
| Figure 3.2 | Building costs in real terms 1963-1980 | 56 |
| Figure 3.3 | Building costs compared with incomes 1963-1979 | 58 |
| Figure 3.4 | Housing expenditure | 65 |
| Figure 3.5 | Price and volume indices for gross rents and water charges | 66 |
| Figure 3.6 | Dwelling stock per 1,000 inhabitants 1957-1980 | 75 |
| Figure 3.7 | Dwellings completed per 1,000 inhabitants 1955-1980 | 79 |
| Figure 3.8 | Investment in housing 1955-1980 | 80 |
| Figure 3.9 | Gross fixed capital formation as percentage of G.D.P. 1955-1980 | 81 |
| Figure 3.10 | Demand and supply of housing credit | 85 |

## 3.1 Introduction

This chapter creates a bridge between the 'aims' of the last chapter and the 'instruments' of the next. It will be argued, in this and subsequent chapters, that the choice of housing policy instruments is influenced by the aims of policy and by policy makers' perceptions of those factors which, in the absence of some action by government, impede the realisation of the aims. Let these factors be termed the 'causes' of housing problems. It will be shown that there are widely differing views within and between countries as to what these causes are. Statistical information for such items as income levels, housing costs, house-building and investment will be presented to show the relevance of the perceptions to the circumstances in the particular countries.

It is necessary to ask such questions as why it should be that insufficient quantities of housing of the desired standard will be consumed in the absence of policy instruments and why too few houses would be produced, why the improvement level would be below a required norm, and why there would be specific shortages and immobility; more succintly: why is the use of housing policy instruments necessary?

It is thus helpful to think about 'zero policy' positions. One way in which 'zero policy' may be defined is a situation in which the demand and supply of housing services are freely determined by market forces; in which case one might attempt to predict the market outcome for each goal. The zero policy position does not, then, imply a total absence of policy, rather a decision to take no action other than rely on market forces. In part, it is useful to view housing policy as a reaction to a dissatisfaction with market forces;

thus the view that housing policy is necessary because market forces have been observed to have failed to produce and allocate housing services satisfactorily. In some cases, however, current policy is found to be not so much a reaction to the failure of market forces as a reaction to the consequences of previous housing policy instruments.

The arguments about market failure and the case for government intervention have, of course, been subject to much examination in the welfare economics literature. A market system works well in terms of both efficiency and equity criteria only when the following conditions hold: property rights are well defined; the initial distribution of property rights is acceptable; factors are mobile; information and transaction costs are negligible; externalities in production, consumption and exchange are absent; public goods are absent and the distribution of rewards is acceptable. These conditions do not apply to the housing market just as they do not apply to most markets. A general presumption in favour of the optimality characteristics of perfect competition is invalidated by externality and distributional factors in particular.

The case, then, for state intervention can be made by reference to imperfections which according to some analysts arise from the peculiar characteristics of the housing market.(1) This view, that the special characteristics of housing are the basis of a case for intervention, has been challenged by some economists, who prefer very little, if any interference with market forces.(2) They argue that

---

(1) See, for example, Lansley, S. (1978), 'Housing and Public Policy', London, Croom Helm, pp.21-22.

(2) Variants of this view have, for example, been expressed by Charles, S. (1978), 'Do we need a housing policy?', National Westminster Bank Quarterly Review, August; and Pennance, F.G. (1969), 'Housing Market Analysis and Policy', Hobart Paper No.48, London, The Institute of Economic Affairs, pp.58-59.

such special features as there are in the housing market strengthen the case for maximum flexibility in consumer choice and against restrictions imposed by governments. It has, indeed been argued that "the 'housing problem' is very largely the cumulative effect of the damaging and self-defeating policies of successive governments".(1)

The evidence from the material examined for each of the countries in this study suggests that the view that a free market in housing would result in an efficient and equitable allocation of housing is not widely held by policy makers and is not a view that has usually been expressed by governments, whatever the country and whatever the political complexion of the government. The free market solution has been rejected not so much because of any 'special characteristics' of housing but more because of the special view taken of housing as merit good.(2) Societies have implicitly created acceptable housing standards, and a given level of housing consumption is deemed to be socially desirable. Those factors which prevent the desired standards being achieved form the key to the housing problem. A fourfold classification of these factors is suggested below. Each class is not intended to be a 'water-tight' compartment, indeed, there are significant overlaps, but the division does provide a framework within which it is possible to investigate the differing views of the causes of housing problems.

In each country, the four elements are to be found but their significance varies from country to country. The 'causes' of housing problems can be viewed as:-

---

(1) Stafford, D. (1978), 'The Economics of Housing Policy', London, Croom Helm, p.8.

(2) See, for example, Ministry of Housing and Physical Planning, The Hague (1976), 'Housing in the Netherlands', p.5.

(a) The relationship between incomes and costs.

This might mean (i) that incomes in general are too low to allow households to afford the costs of housing of acceptable standards or (ii) that the distribution of income is such that certain groups are unable to pay the costs necessary to obtain housing of the required standard.

(b) Too low a level of production.

This might be too low a level of new building and of housing improvement. Housing production is thus viewed in a broad fashion to include the production of additional units of an acceptable quality by new construction or the commitment of resources to the existing stock.

(c) Capital market shortages and high interest rates.

In this case the roots of the problem are seen to lie not in what might usually be called the 'housing market', which is concerned with the supply and allocation of new and existing dwellings and thus the purchase and renting of accommodation, but in the capital market. Capital markets may fail to provide flows of funds at sufficiently low rates of interest to allow either consumers to obtain sufficient funds to purchase acceptable quantities of 'decent housing' or producers to supply sufficient quantities of 'decent housing'.

(d) An inefficient or inequitable allocation of the existing stock

Here the view is that the flow of services from the housing stock is distributed in a manner which prevents certain groups achieving 'desired' housing standards: there is quantitatively enough housing in the sense that the number of dwellings at least

exceeds the number of households by an amount reflecting a 'desirable' vacancy rate, but it is not used in an acceptable fashion. This view concentrates, as does an aspect of the first view, on distributional issues, but in (a) it is the distribution of income alone that is considered. Here the distribution of the services of the housing stock may be judged to be unsatisfactory because of many factors other than income distribution: a particular pattern of rents or a public sector renting procedure might, for example, encourage immobility or 'under-occupation'.

Each of these four perceptions of factors which impede the achievement of housing policy goals is quite different from a 'market failure' rationale for policy action. Any of the sets of circumstances envisaged by these perceptions could exist even if the housing market had all the features of a perfectly competitive market with no imperfections. Such a market might leave some households with 'unacceptable' accommodation, result in outputs which are 'too low' in either quantitative or qualitative terms, and distribute the output in a 'inequitable' fashion. The rationale for intervention lies within the definitions of 'unacceptable', 'too low', and 'inequitable' and not in any specific concern with market imperfections. The next four sections examine these perceptions.

## 3.2 The relationship between incomes and costs

The general level of incomes in a country may be too low in relation to housing costs for households on average to obtain the standard of housing available to households in another country with higher income levels or lower costs.[1] Alternatively, considering the

---

(1) See Donnison, D. (1967), 'The Government of Housing', London, Penguin, pp.66-67.

distribution of income within a country, it may be apparent that some households have insufficient income to achieve a standard which governments find acceptable. This view thus suggests that the rental or purchase price of housing is too high to permit some households to buy desirable amounts and those who are poorly housed are principally in lower income groups.(1) Many policy analysts assume that increases in incomes will lead to significantly higher levels of housing consumption and that poor housing is mainly the result of poverty. Moreover it has been argued that many housing programmes will do nothing to improve housing quality in the long run since they do nothing to alleviate poverty.(2)

Much of the literature consulted for this study suggests that housing problems are perceived as being significantly associated with both the general level and the distribution of incomes in each of the European countries. This 'income distribution' view is particularly strong in the West German literature where a major policy problem is identified as the 'payment-gap' between paying capacity and household costs, and unless incomes rise faster than costs, the gap remains. However, "Increasing construction, energy and operating costs prevent the gap between available incomes of a third of lower income earners and the utilisation cost for qualitatively appropriate and sufficiently large apartments from closing".(3)

---

(1) See Jaffe, D. (1973) in 'Financing of Housing', Proceedings of Seminar in Geneva, August, U.N.E.C.E. p.186.

(2) This view has been expressed particularly strongly by Muth, R. (1967), 'Slums and Poverty' in Nevitt, A.A. (ed.)(1967), 'The Economic Problems of Housing', London, Macmillan, p.19.

(3) Pfeiffer, U. (1976 A), 'Housing Policy in the affluent society', Translation by West German Ministry for Regional Planning, Building and Urban Development; supplied by the author, p.2.

Also in the West German context, a 'payment gap' has been identified as a principal cause of inadequate modernisation. In this case the gap is between the paying capacity of low income households and the costs of modernisation which is widening as the later rise more rapidly than the former. A long term trend analysis by the West German Ministry for Regional Planning, Building and Urban Development has shown that the costs of modernisation and maintenance increase more rapidly than the costs of new construction because of the relatively high labour intensity and low rationalisation potential in improvement works.(1)

The Barre Report(2) on housing in France argued that the low incomes of certain groups was the major barrier to the achievement of satisfactory housing standards by these groups. The Report argued for a change of emphasis in housing policy which gave more help to those on lower incomes. Housing allowance schemes were expanded in the Netherlands and Denmark in the 1970s partly in response to arguments that there were important relationships between poor housing standards and low incomes and there should be more emphasis on subsidising the housing consumption of low-income households.

Some statistical information about the relationship between incomes and housing costs in the different countries will now be examined. Detailed empirical evidence about the distribution of incomes in the different countries, organised in a manner which would allow useful

---

(1) Pfeiffer, U. (1976 B), 'Open questions about modernisation aid'. Translation by West German Ministry for Regional Planning, Building and Urban Development; supplied by the author, p.4,

(2) See Local Finance (1977), 'Reform of Housing Finance in France: Barre Report, Vol.6, Number 1, 1 Feb., pp.10-23.

Table 3.1: Incomes per head

(Gross Domestic Product per head at market prices in European units of monetary values (EURs) and European Currency Units (ECUs)).

| | 1956 | | 1960 | | 1966 | | 1970 | | 1976 | | 1981 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | EURs | Rank Order | EURs | Rank Order | EURs | Rank Order | EURs | Rank Order | EURs | Rank Order | ECUs | Rank Order |
| Denmark | 1001 | 3 | 1289 | 4 | 2309 | 1 | 3160 | 1 | 6007 | 1 | 10205 | 1 |
| France | 1255 | 1 | 1315 | 2 | 2156 | 2 | 2775 | 3 | 5168 | 3 | 9494 | 3 |
| West Germany | 959 | 4 | 1301 | 3 | 2064 | 3 | 3058 | 2 | 5690 | 2 | 9957 | 2 |
| Ireland | 529 | 6 | 628 | 6 | 937 | 6 | 1322 | 6 | 1978 | 6 | 5510 | 6 |
| Netherlands | 787 | 5 | 959 | 5 | 1524 | 5 | 2429 | 4 | 5122 | 4 | 8866 | 4 |
| United Kingdom | 1141 | 2 | 1358 | 1 | 1829 | 4 | 2193 | 5 | 3085 | 5 | 7956 | 5 |

Source: Eurostat National Accounts Aggregate 1973 and 1977 and Eurostat National Accounts ESA 1960 - 1981 (1983)

Note: data in EURs is not available for years after 1976 and data in ECUs is not available for years before 1960.

Table 3.2: Cost of New building in 'man years per dwelling', 1970

| | Man Years per dwelling | Rank |
|---|---|---|
| Denmark | 3.5 | 5 |
| France | 6.4 | 1 |
| West Germany | 5.3 | 2 |
| Ireland | 3.9 | 4 |
| Netherlands | 4.0 | 3 |
| United Kingdom | 2.7 | 6 |

Source: Fleming, W. 'Housing Costs in Europe Compared', Building, 12th October, 1973

comparisons, is not readily available. For three of the countries, however, information collated for the Royal Commission on the Distribution of Income and Wealth[1] suggests that, on the basis of Gini coefficients calculated from approximately comparable data for taxable incomes, there are more equal distributions for tax units in the United Kingdom and Ireland than in West Germany. Less comparable data for pretax household incomes suggests that household income is more equally distributed in the United Kingdom than it is in France, West Germany, or Ireland.[2]

Table 3.1 facilitates comparison of the absolute levels of income per head. The position of the U.K. is most striking, moving from the country with the highest income per head in 1960 to the second lowest by 1970. It was still in this position in 1981. In recent years Denmark and West Germany have experienced the highest income levels.[3] The growth of real incomes in each country is shown in Figure 3.1. Real incomes clearly increased less in the U.K. in the period 1963-1979 than in any of the other countries. If income per head is a useful proxy for the basic ability of an economy to achieve housing targets, Britain's ability is falling relative to that of the other countries.

Comparing the absolute level of construction costs in different countries is a most complex problem on which information is very limited. W. Fleming has rehearsed the many theoretical problems, particularly those of currency conversion and has examined the

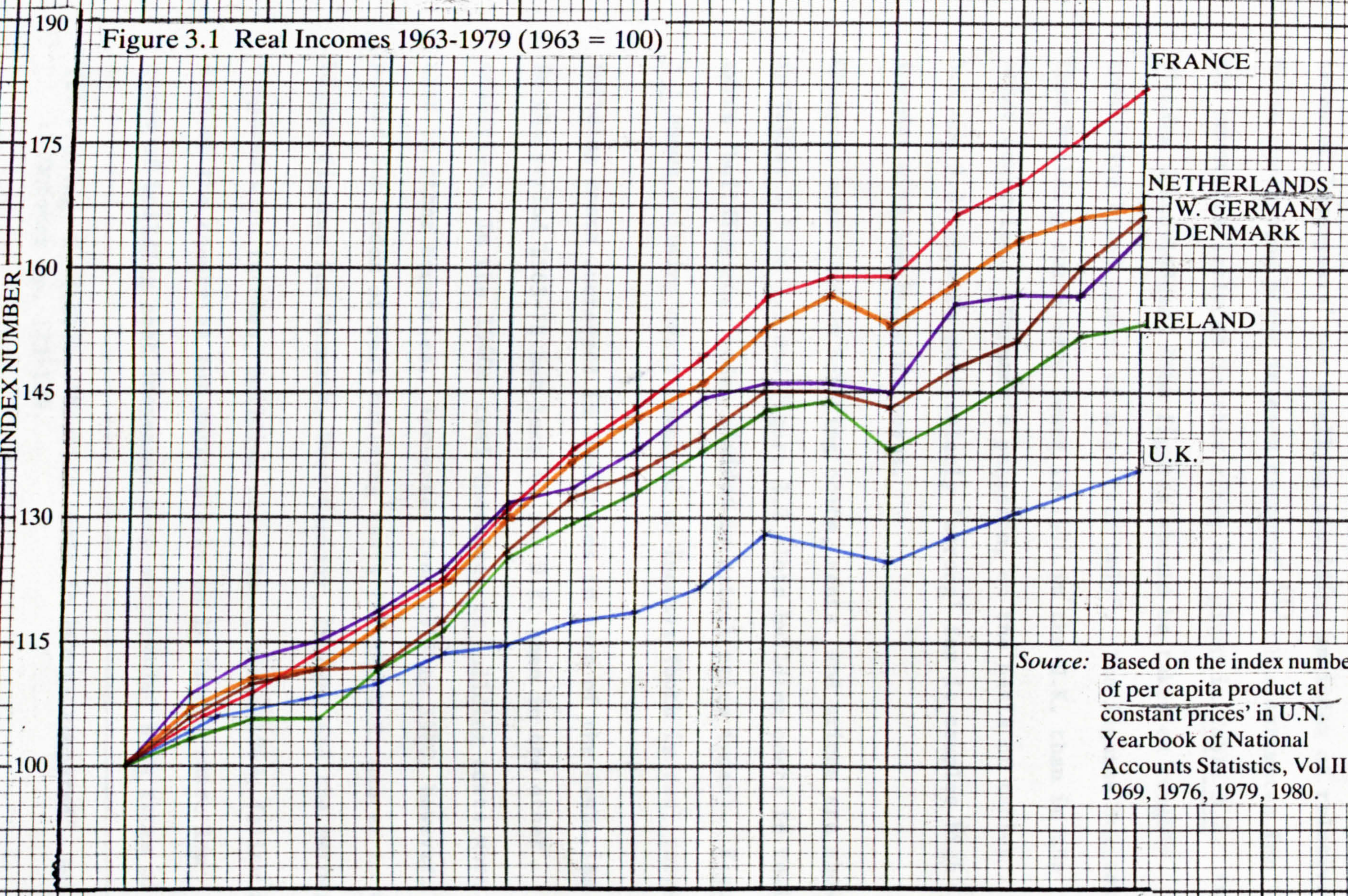
---

(1) H.M.S.O. (1977 A), 'Royal Commission on the Distribution of Income and Wealth, Report No.5, Table 56, p.125.

(2) See Brown, C.V. and Jackson, P.M. (1982, 'Public Sector Economics', Oxford, Martin Robertson, Table 13.10, p.287.

(3) Similar rankings to those shown in Table 3.1 can be confirmed by figures in the 'U.N. Yearbooks of National Accounts Statistics' based on per capita income in United States dollars.

Figure 3.1 Real Incomes 1963-1979 (1963 = 100)




*Source:* Based on the index numbers of per capita product at constant prices' in U.N. Yearbook of National Accounts Statistics, Vol II, 1969, 1976, 1979, 1980.

available data. He concluded that "One approach to the international comparison of housebuilding costs which avoid the currency-conversion problem is to examine these costs in relation to average incomes in each country. House construction costs may then be expressed in terms of 'man-years' per dwelling providing an index of relative house purchasing power in each country".(1) His estimates for the countries included in this study are given in Table 3.2. As Fleming acknowledges, "The figures should be taken as roughly indicative broad orders of magnitude only". The figures suggest that building costs were lower in 1970 in the U.K. than in the other countries. Denmark's position, on the basis of tables 3.1 and 3.2, appears particularly 'strong' for it couples high incomes with low building costs.

Changes, over time,in building costs, rents, and prices are shown in Tables 3.3 to 3.5 and Figure 3.2 plots building costs in real terms (building cost index divided by retail price index). Figure 3.3 shows building costs compared to incomes (both in real terms).

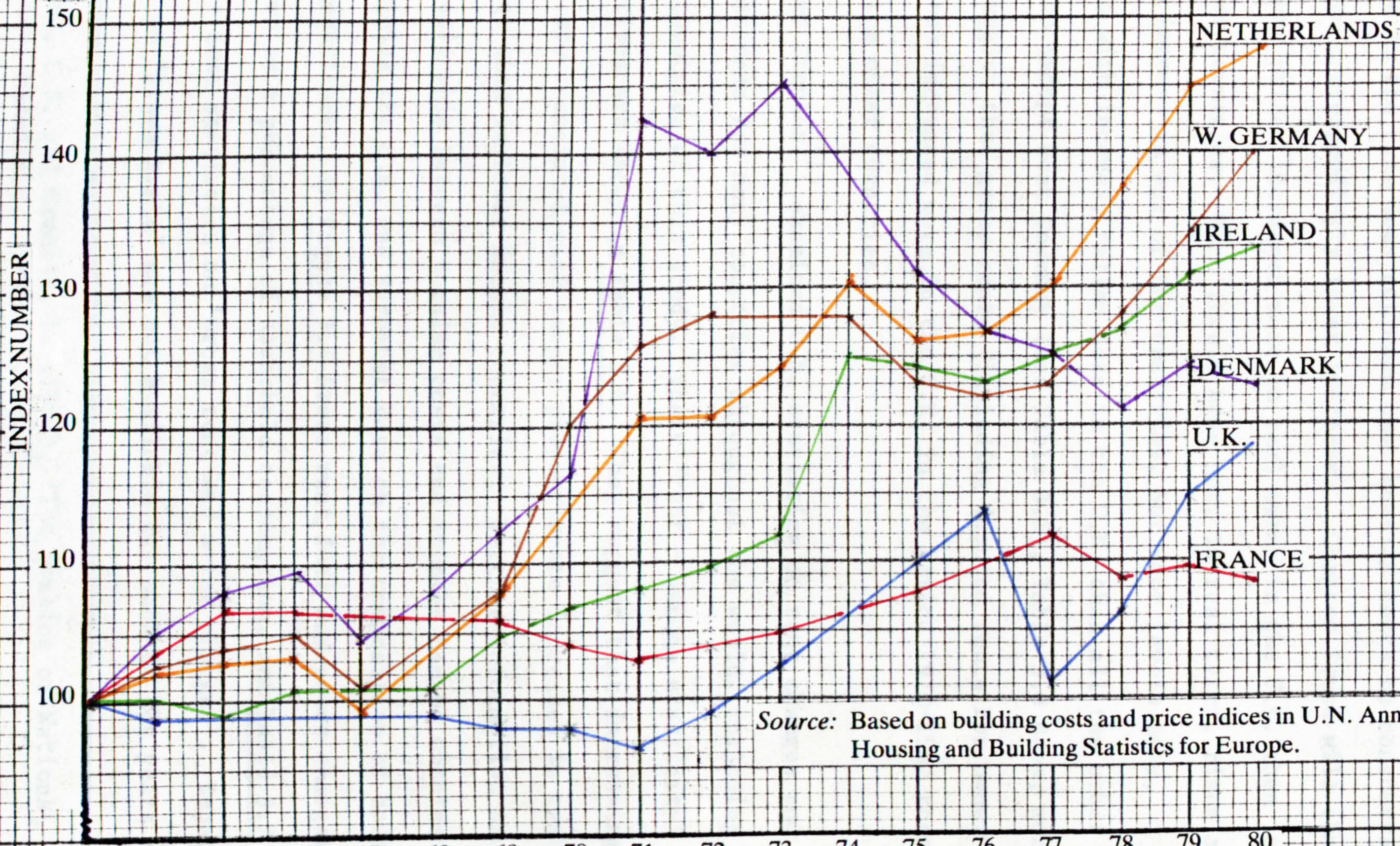
Building costs increased in real terms in each of the countries in the period 1963-78 but less in the U.K. than in the other countries. In the 1960s real increases in building costs were less than in other countries. Increases from 1978 to 1980, however, pushed the index of real building costs for the U.K. nearer to the higher figures for Denmark, West Germany, Ireland and the Netherlands.

Compared with incomes, building costs have, since 1963, fallen in each of the countries but particularly so in France where low rates of building cost increases have accompanied high rates of

---

(1) Fleming, W. (1973), 'Housing costs in Europe compared', Building, 12 October pp. 123-128.

Figure 3.2 Building Costs in Real Terms 1963-1980 (1963 = 100)
(Building Cost index divided by Retail Price Index)




*Source:* Based on building costs and price indices in U.N. Annual Bulletins of Housing and Building Statistics for Europe.

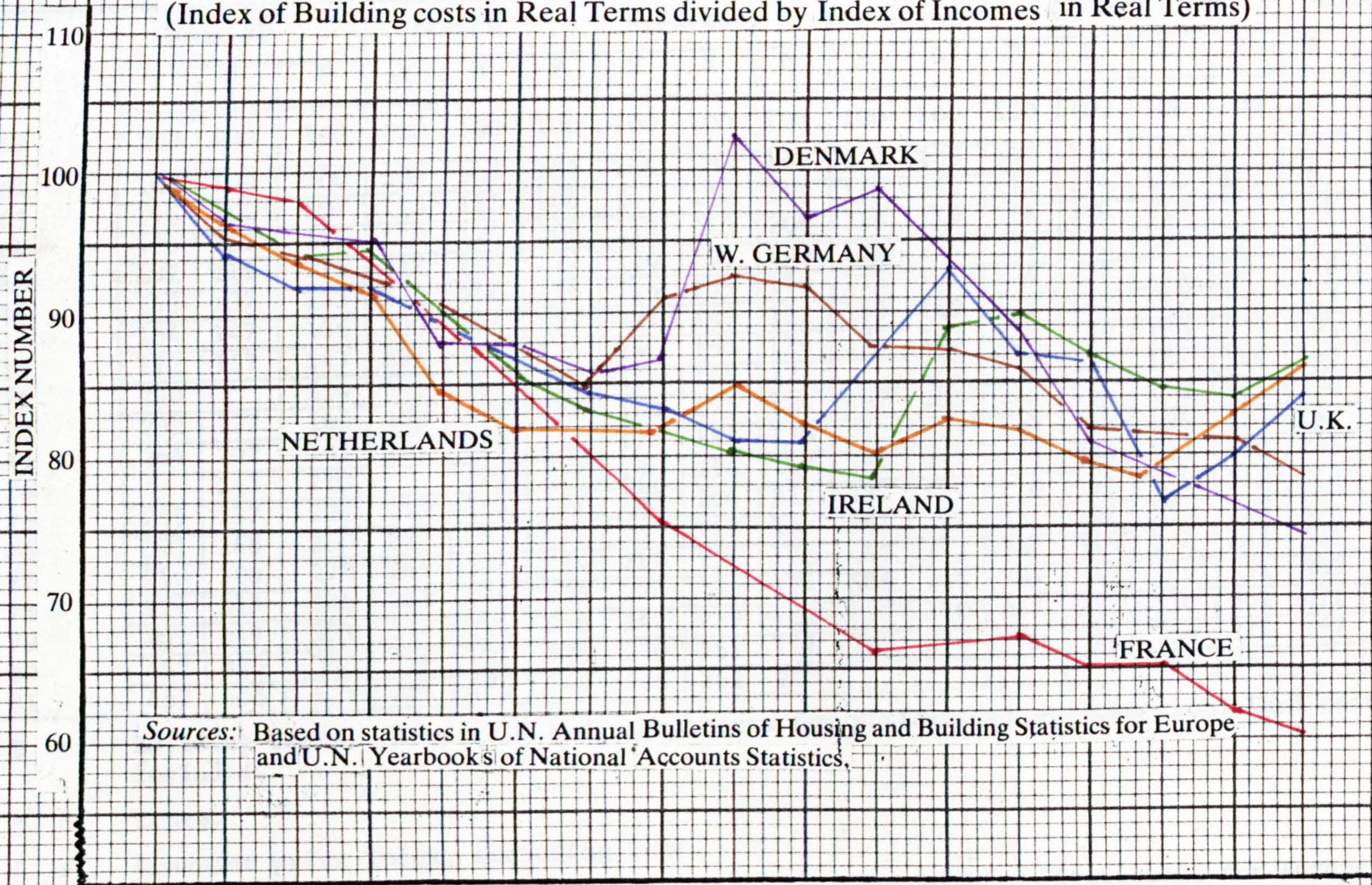
growth of real incomes. In the U.K. from 1963 to 1977 building costs increased less compared with incomes than in all the other countries except France. This relatively low rate of building cost increase in the U.K. does not mean that housing costs to consumers displayed correspondingly lower increases. Chapter Seven will show that house prices increased more in real terms in the U.K. than in the other countries. Rent levels have not, in real terms, risen as fast as incomes in any of the countries, but rent levels have, compared with incomes, fallen less in the U.K. than all the other countries except West Germany (see Table 3.5), Table 3.8 does, moreover, suggest that gross rents (including imputed rents for owner-occupiers) increased more in the U.K. in the period 1970-1980 than in all the other countries.

Burns and Grebler[1] examined U.N. statistics on rent changes and income changes for many countries throughout the world, including four of the countries of this study. Their 'rent - income elasticity' calculations are shown in Table 3.6. They suggest that increasing incomes are associated with larger proportionate increases in rents in higher than in lower income countries. Further information about the relationship between housing costs and incomes can be obtained by examining the U.N. and Eurostat data on the composition of household expenditure. In Figure 3.4 Gross rent, fuel and power charges are shown as a percentage of household consumption, and Table 3.7 presents some statistics on 'Gross rent and water charges'. Separate figures on 'gross rents' are not available for each of the years shown.

---

(1) Burns, L.S. and Grebler, L. (1967), 'The Housing of Nations', London, Macmillan, Chapter 3, pp.47-64.

Figure 3.3 Building Costs Compared with Incomes 1963-1979 (1963 = 100)
(Index of Building costs in Real Terms divided by Index of Incomes in Real Terms)




*Sources:* Based on statistics in U.N. Annual Bulletins of Housing and Building Statistics for Europe and U.N. Yearbooks of National Accounts Statistics.

Table 3.3: Building Costs, Rents, and Prices 1963 - 1981. 1963 = 100

| | Denmark | | | France | | | W.Germany | | | Ireland | | | Netherlands | | | United Kingdom | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | B | R | P | B | R | P | B | R | P | B | R | P | B | R | P | B | R | P |
| 1963 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 64 | 105 | 100 | 100 | 107 | 105 | 103 | 105 | 106 | 102 | 107 | 105 | 107 | 109 | 105 | 106 | 102 | 105 | 103 |
| 65 | 116 | 102 | 107 | 113 | 115 | 106 | 109 | 112 | 105 | 111 | 112 | 112 | 114 | 110 | 111 | 107 | 111 | 108 |
| 66 | 123 | 112 | 113 | 116 | 125 | 108 | 113 | 123 | 108 | 116 | 119 | 116 | 120 | 119 | 117 | 111 | 119 | 112 |
| 67 | 132 | 119 | 126 | 118 | 139 | 111 | 110 | 131 | 109 | 120 | 126 | 119 | 120 | 123 | 121 | 113 | 124 | 114 |
| 68 | 143 | 137 | 133 | 123 | 150 | 116 | 116 | 139 | 110 | 125 | 135 | 124 | 128 | 132 | 124 | 118 | 130 | 119 |
| 69 | 154 | 147 | 136 | 130 | 164 | 123 | 121 | 149 | 112 | 139 | 149 | 133 | 144 | 142 | 133 | 123 | 136 | 126 |
| 70 | 172 | 157 | 147 | 134 | 176 | 129 | 140 | 155 | 116 | 154 | 163 | 144 | 159 | 150 | 139 | 131 | 146 | 134 |
| 71 | 220 | | 154 | 141 | 186 | 137 | 155 | 164 | 122 | | 179 | 157 | 181 | 163 | 149 | 140 | 159 | 146 |
| 72 | 232 | 177 | 165 | 150 | 197 | 144 | 166 | 175 | 129 | 187 | 200 | 170 | 196 | 178 | 161 | 156 | 177 | 157 |
| 73 | 264 | 202 | 181 | 162 | 213 | 155 | 178 | 184 | 138 | 212 | 215 | 190 | 218 | 196 | 174 | 192 | 197 | 170 |
| 74 | | 243 | 210 | | 228 | 177 | 190 | 194 | 147 | 281 | 233 | 223 | 248 | 213 | 190 | 235 | 220 | 198 |
| 75 | 299 | 237 | 229 | 213 | 253 | 197 | 195 | 206 | 157 | 337 | 259 | 270 | 267 | 228 | 210 | 272 | 261 | 248 |
| 76 | 321 | 268 | 250 | 237 | 282 | 215 | 201 | 217 | 164 | 397 | 297 | 321 | 291 | 255 | 228 | 331 | 298 | 291 |
| 77 | 350 | 300 | 278 | 265 | 308 | 236 | 211 | 224 | 170 | 462 | 323 | 366 | 318 | 274 | 243 | 341 | 336 | 338 |
| 78 | 374 | 325 | 306 | 282 | 334 | 258 | 224 | 230 | 174 | 508 | 289 | 397 | 347 | 289 | 251 | 389 | 361 | 366 |
| 79 | 402 | 349 | 321 | 314 | 371 | 286 | 242 | 239 | 182 | 588 | 320 | 443 | 382 | 310 | 261 | 471 | 435 | 410 |
| 80 | 452 | 375 | 365 | 356 | 421 | 325 | 270 | 251 | 191 | 707 | 376 | 526 | 413 | 333 | 278 | 567 | 560 | 478 |
| 81 | 452 | 405 | 428 | 389 | 475 | 369 | 286 | 262 | 203 | | | | | 358 | 352 | | 593 | 494 |

Notes: B = Building Costs. Materials and wages costs for residential construction. Land costs are not included.

R = Rents.

P = Consumer price index, excluding rent.

Source: Based on indices in U.N. Annual Bulletins of Housing and Building Statistics for Europe

Table 3.4

Rents and building costs in real terms 1963 - 80. 1963 = 100

| | Denmark | | France | | W.Germany | | Ireland | | Netherlands | | United Kingdom | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $R_p$ | $B_p$ | $R_p$ | $B_p$ | $R_p$ | $B_p$ | $R_p$ | $B_p$ | $R_p$ | $B_p$ | $R_p$ | $B_p$ |
| 1963 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 64 | 100 | 105 | 102 | 104 | 104 | 103 | 98 | 100 | 99 | 103 | 102 | 99 |
| 65 | 95 | 108 | 108 | 107 | 107 | 104 | 100 | 99 | 99 | 103 | 103 | 99 |
| 66 | 99 | 109 | 116 | 107 | 114 | 105 | 103 | 101 | 102 | 103 | 106 | 99 |
| 67 | 94 | 105 | 125 | 106 | 120 | 101 | 106 | 101 | 102 | 99 | 109 | 99 |
| 68 | 103 | 108 | 129 | 106 | 126 | 105 | 109 | 101 | 106 | 103 | 109 | 99 |
| 69 | 108 | 113 | 133 | 106 | 133 | 108 | 112 | 105 | 107 | 108 | 108 | 98 |
| 70 | 107 | 117 | 136 | 104 | 134 | 121 | 113 | 107 | 108 | 114 | 109 | 98 |
| 71 | | 143 | 136 | 103 | 134 | 127 | 114 | | 109 | 121 | 109 | 96 |
| 72 | 107 | 141 | 137 | 104 | 136 | 129 | 118 | 110 | 110 | 121 | 113 | 99 |
| 73 | 112 | 146 | 137 | 105 | 133 | 129 | 113 | 112 | 113 | 125 | 116 | 113 |
| 74 | 116 | | 129 | | 132 | 129 | 104 | 126 | 112 | 131 | 111 | 119 |
| 75 | 103 | 131 | 128 | 108 | 131 | 124 | 96 | 125 | 108 | 127 | 105 | 110 |
| 76 | 107 | 128 | 131 | 110 | 132 | 123 | 92 | 124 | 112 | 127 | 102 | 114 |
| 77 | 108 | 126 | 130 | 112 | 132 | 124 | 88 | 126 | 113 | 131 | 99 | 101 |
| 78 | 106 | 122 | 129 | 109 | 132 | 129 | 73 | 128 | 115 | 138 | 98 | 106 |
| 79 | 109 | 125 | 130 | 110 | 131 | 133 | 72 | 133 | 119 | 146 | 106 | 115 |
| 80 | 103 | 124 | 130 | 109 | 131 | 141 | 71 | 134 | 120 | 149 | 117 | 119 |

Notes: $R_p$ = Rents in real terms. Rent index ÷ retail price index.

$B_p$ = Building costs in real terms. Building costs ÷ retail price index

Source: Based on indices in U.N. Annual Bulletins of Housing and Building Statistics for Europe.

Table 3.5

Rents and Building costs compared with incomes 1963 - 79. 1963 = 100

| | Denmark | | France | | W.Germany | | Ireland | | Netherlands | | United Kingdom | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $R_y$ | $B_y$ | $R_y$ | $B_y$ | $R_y$ | $B_y$ | $R_y$ | $B_y$ | $R_y$ | $B_y$ | $R_y$ | $B_y$ |
| 1963 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 64 | 92 | 96 | 98 | 99 | 97 | 96 | 96 | 96 | 92 | 96 | 97 | 94 |
| 65 | 84 | 96 | 99 | 98 | 96 | 94 | 95 | 94 | 89 | 93 | 96 | 92 |
| 66 | 86 | 96 | 102 | 94 | 102 | 94 | 97 | 95 | 91 | 92 | 98 | 92 |
| 67 | 79 | 88 | 105 | 89 | 107 | 90 | 95 | 90 | 91 | 84 | 98 | 89 |
| 68 | 84 | 88 | 105 | 86 | 106 | 88 | 92 | 85 | 85 | 82 | 96 | 87 |
| 69 | 82 | 86 | 101 | 80 | 105 | 85 | 88 | 83 | 81 | 82 | 94 | 85 |
| 70 | 79 | 87 | 98 | 75 | 101 | 91 | 87 | 82 | 78 | 82 | 92 | 83 |
| 71 | – | 103 | 94 | 72 | 98 | 83 | 85 | – | 76 | 85 | 92 | 81 |
| 72 | 74 | 97 | 91 | 69 | 97 | 92 | 85 | 79 | 75 | 82 | 93 | 81 |
| 73 | 76 | 99 | 87 | 66 | 90 | 88 | 79 | 78 | 73 | 80 | 91 | 88 |
| 74 | 79 | – | 80 | – | 90 | 88 | 73 | 89 | 71 | 83 | 87 | 94 |
| 75 | 70 | 89 | 80 | 67 | 92 | 87 | 69 | 90 | 70 | 82 | 84 | 88 |
| 76 | 68 | 81 | 78 | 65 | 89 | 82 | 65 | 87 | 70 | 80 | 79 | 88 |
| 77 | 68 | 79 | 76 | 65 | 87 | 83 | 59 | 85 | 68 | 79 | 76 | 77 |
| 78 | 67 | 77 | 72 | 61 | 83 | 81 | 48 | 84 | 68 | 82 | 73 | 79 |
| 79 | 66 | 75 | 71 | 60 | 78 | 79 | 47 | 86 | 70 | 86 | 77 | 79 |

Notes: $R_y$ = Rents compared with incomes. Rent index in real terms ÷ index of incomes in real terms.

$B_y$ = Building costs compared with incomes. Building cost index in real terms ÷ index of incomes in real terms.

Sources: Based on rent, building cost, and price indices in U.N. Annual Bulletins of Housing and Building Statistics for Europe and index numbers of 'per capita product at constant prices' in U.N. Yearbooks of National Accounts statistics Vol. II. All recalculated to the common base year.

Table 3.6: 'Rent/Income Elasticities' 1960 - 69

| | |
|---|---|
| Denmark | 0.88 |
| West Germany | 1.55 |
| Ireland | 0.53 |
| United Kingdom | 0.65 |

Source: Burns, L.S., and Grebler, L., 'The Housing of Nations', 1977 Table 3.2 p.56.

Table 3.7: 'Gross Rent and Water Charges as a Percentage of final household consumption at constant prices'. 1970 - 1980

| | 1970 | 1973 | 1975 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|
| Denmark | 13.2 | 15.4 | 17.3 | 20.3 | 17.4 | 18.8 |
| France | 11.0 | 11.1 | 11.4 | 11.9 | 11.9 | 12.1 |
| West Germany | 11.6 | 11.7 | 11.9 | 11.6 | 11.5 | * - |
| Ireland | 6.1 | 5.9 | 6.4 | — | 6.2 | — |
| Netherlands | 10.0 | 9.7 | 9.5 | 9.7 | 10.2 | 10.7 |
| United Kingdom | 14.7 | 14.0 | 14.6 | 14.3 | 14.4 | 14.4 |

Note: Gross rents are "All gross rent in respect of dwellings actual and imputed in the case of owner-occupied houses including ground rents and taxes on the property. House rent will in general be space rent covering heating and plumbing facilities, lighting fixtures, fixed stores, wash basins and other similar equipment which is customarily installed in the house before selling or letting. Also included are payments for garbage and sewerage disposal and expenditures of tenants on indoor repair and upkeep, such as indoor painting, wallpapering and decorating. Rents paid for rooms in boarding houses, but not in hotels, are included. Rents of secondary dwellings such as summer cottages, mountain chalets etc. are also included".

(U.N. System of National Accounts, United Nations, New York 1968 Studies in Methods Series F, No.2, p.106.

Source of Statistics: Eurostat Accounts ESA Detailed Tables 1970-78 and 1970-80.

*Blank spaces in this and all other tables in this study indicate non-availability of data.

Water charges are, however, unlikely to account for more than 6 per cent[1] of total gross rent and water charges. A detailed definition of 'gross rents' is given under Table 3.7 but it is important to note that it is an attempt to measure housing payments in both the rental and owner occupied sector in contrast to the rent indices based on U.N. data used in this Chapter and in Chapter Five which relate only to rented dwellings.[2]. It is clear that a higher proportion of household consumption expenditure is allocated to housing in the United Kingdom than all the other countries except Denmark.

The statistical office of the European Communities (Eurostat) has compiled detailed price and consumption data for more than 1,000 articles which comprise final household consumption in each of the countries of the European Communities. Price data has been published for 50 purpose categories. One of these categories is 'gross rents and water charges'. Gross rents are as defined in the note under Table 3.7 Data has been collected by standardised questionnaires to national governments and by additional survey work by Eurostat. The difficulties of comparing prices for similar items of consumption are acknowledged by Eurostat but carefully considered attempts have been made. In the case of

---

(1) See footnote on page 69.

(2) The rent indices in Table 3.3, for example, are taken from the U.N. Bulletins of Housing and Construction Statistics for Europe and relate only to the rented sector. This is confirmed in a letter from the U.N.E.C.E. Information Officer in Geneva (19th October 1981): "In reply your enquiry concerning the rent index used in the 'Annual Bulletin of Housing and Building Statistics for Europe' ..... No estimates of imputed rent for owner-occupiers have been made'. This contrasts with the definition of 'gross rents' : see definition under Table3.7 of this Chapter.

dwellings, twelve basic types common to each country were identified. Imputed rents for owner-occupied dwellings were derived by assessing rents for similar tenanted properties. This was, of course, more difficult in countries where the proportion of rented dwellings was relatively low. The difficulties of such a comparison across countries are such that the results must be treated with caution but the data does facilitate comparisons of the general trends over time in both the price and volume consumption of 'gross rents and water charges'.

Price, volume, and value indices for 'gross rents and water charges' are shown in Table 3.8. The value index has been derived from data on the total value of consumer's expenditure on gross rents and water charges at current values in national currencies. The indices are consistent in that, Value Index = Price Index x Volume Index.

In Figure 3.5 the price and volume indices are shown for each country for the period 1973 to 1980. The position of the U.K. is distinguished by a relatively large rise in price and a relatively low increase in volume. This relatively large price increase in the U.K. is not due simply to a generally higher level of inflation in this period. The price indices for aggregate final consumption in Table 3.9 have been used to deflate the data in Table 3.8 giving the indices for'gross rent and water charges in real terms' shown in Table 3.10. The increase is clearly higher in the U.K. than in any other country. The figures will not have been

## Figure 3.4 Housing Expenditure

Note: For definition of 'gross rents' see note under Table 3.7

*Sources:* U.N. Yearbook of National Accounts Statistics Vol I Individual County Data 1978 and Eurostat Accounts ESA. Detailed Tables 1970-78 (1980)

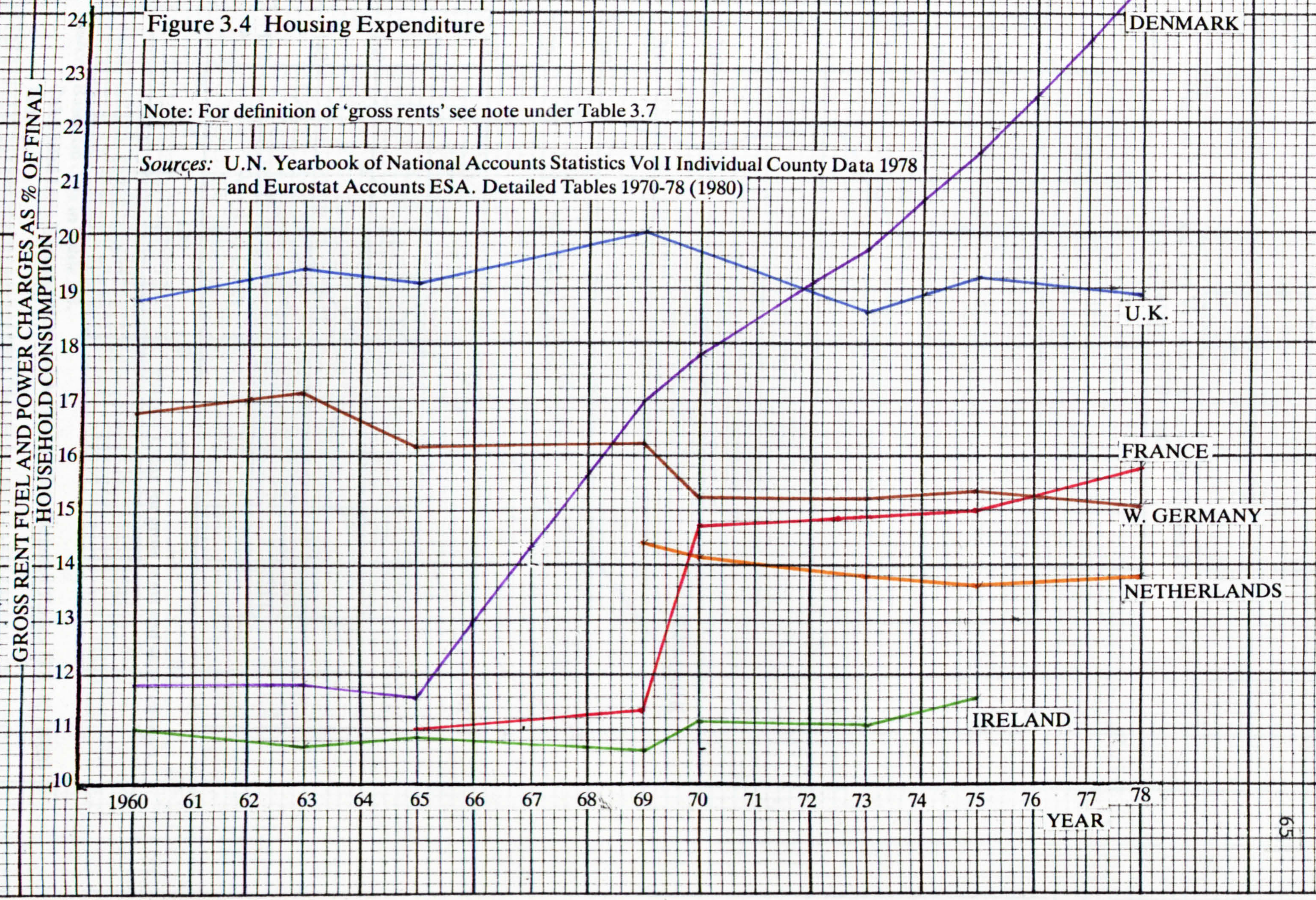
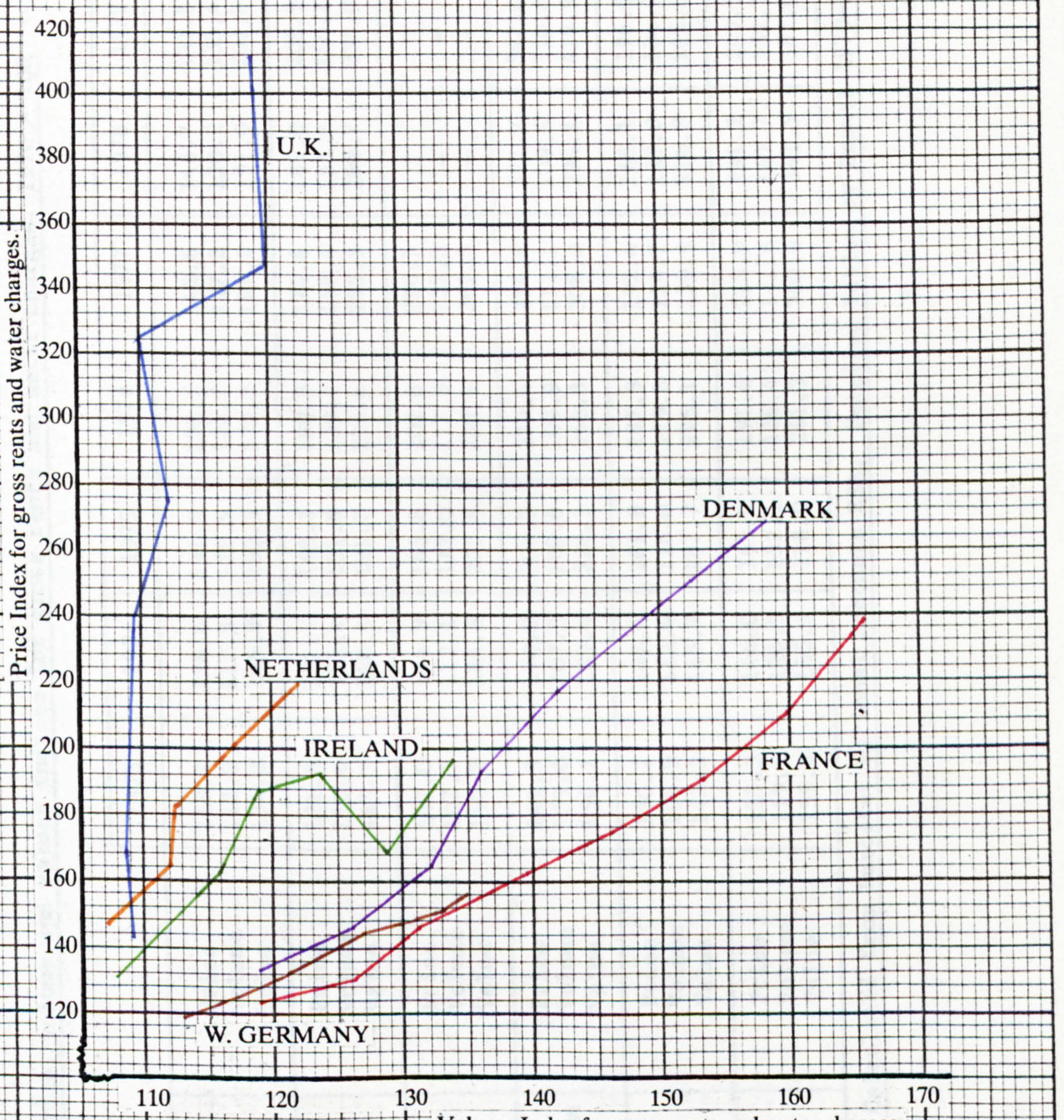


Figure 3.5 Price and Volume Indices for Gross Rents and Water Charges 1970=100.




*Source:* Based on data in Table 3.8.
Calculated from Eurostat National Accounts ESA. Detailed Tables 1970-80 (1983) Table 5.

Table 3.8 Price, volume and values indices for gross rents and water charges. 1970 = 100

| | | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|---|---|
| West Germany | Price | 118.7 | 124.4 | 131.9 | 138.1 | 142.6 | 146.7 | 151.3 | 159.0 |
| | Volume | 112.9 | 117.3 | 121.5 | 124.7 | 127.2 | 130.2 | 133,4 | 135.2 |
| | Value | 134.0 | 145.9 | 160.3 | 172.2 | 181.4 | 191.0 | 201.8 | 215,0 |
| France | Price | 121.8 | 131.7 | 145.3 | 160.5 | 174.8 | 189.0 | 209.9 | 237.2 |
| | Volume | 119.6 | 126.4 | 131.6 | 139.3 | 146.4 | 155.3 | 160.1 | 166.8 |
| | Value | 145.7 | 166.5 | 191.2 | 223.6 | 255.9 | 289.7 | 336.0 | 395.6 |
| Netherlands | Price | 147.0 | 164.9 | 183.8 | 202.8 | 218.7 | - | - | - |
| | Volume | 107.7 | 112.1 | 112.0 | 117.9 | 122.3 | - | - | - |
| | Value | 158.3 | 184.8 | 205.9 | 239.1 | 267.5 | - | - | - |
| United Kingdom | Price | 141.9 | 170.0 | 208.3 | 239.6 | 274.8 | 321.7 | 347.0 | 409.6 |
| | Volume | 109.0 | 107.9 | 109.6 | 109.9 | 112.1 | 109.4 | 120.0 | 119.9 |
| | Value | 154.7 | 183.4 | 228.3 | 263.3 | 308.0 | 294.1 | 419.9 | 487.8 |
| Ireland | Price | 130.7 | 147.4 | 161.8 | 187.9 | 192.4 | 168.1 | 196.9 | - |
| | Volume | 108.9 | 112.4 | 116.0 | 119.8 | 124.7 | 129.0 | 134.9 | - |
| | Value | 142.3 | 165.7 | 187.7 | 225.1 | 239.9 | 216.8 | 265.6 | - |
| Denmark | Price | 133.3 | 146.0 | 165.0 | 191.6 | 213.9 | 231.2 | 249.5 | 268.0 |
| | Volume | 119.5 | 126.9 | 132.1 | 136.4 | 141.6 | 147.7 | 152.7 | 158.4 |
| | Value | 159.3 | 185.3 | 218.0 | 261.3 | 302.6 | 341.5 | 381.0 | 424.5 |

Source: Calculated from Eurostat National Accounts ESA. Detailed Tables by Branch 1970-80 (1983) Table 5.

Table 3.9 Price indices of final consumption of households 1970 = 100

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|---|
| West Germany | 120.4 | 129.0 | 136.8 | 141.6 | 148.4 | 153.5 | 158.5 | – |
| France | 119.2 | 135.0 | 150.3 | 165.3 | 180.4 | 196.5 | 217.3 | 245.6 |
| Netherlands | 129.0 | 141.9 | 157.0 | 170.8 | 180.8 | – | – | – |
| United Kingdom | 125.7 | 147.5 | 182.1 | 210.4 | 242.4 | 264.7 | 299.0 | 348.3 |
| Ireland | 133.7 | 154.9 | 189.4 | 225.0 | 253.2 | 272.3 | 308.9 | – |
| Denmark | 129.6 | 148.8 | 163.7 | 178.4 | 196.7 | 215.8 | 236.5 | 263.7 |

Source: Calculated from Eurostat National Accounts ESA. Detailed Tables by Branch 1970-80 (1983), Table 5.

Table 3.10 Gross rents and water charges in real terms 1970 = 100

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|---|
| West Germany | 98.6 | 96.4 | 96.4 | 97.5 | 96.1 | 95.6 | 95.5 | – |
| France | 102.2 | 97.5 | 96.7 | 97.1 | 96.9 | 96.2 | 96.6 | 96.6 |
| Netherlands | 113.9 | 116.2 | 117.0 | 118.7 | 121.0 | – | – | – |
| United Kingdom | 112.9 | 115.2 | 114.4 | 113.9 | 113.4 | 121.5 | 116.0 | 117.6 |
| Ireland | 97.8 | 95.2 | 85.4 | 83.5 | 76.0 | 61.7 | 63.7 | – |
| Denmark | 102.8 | 98.1 | 100.8 | 107.4 | 108.7 | 107.1 | 105.5 | 101.6 |

Note: Each entry is the relevant value from Table 3.8 divided by the relevant value from Table 3.9

Source: Calculated from Eurostat National Accounts ESA. Detailed Tables by Branch 1970-80 (1983) Table 5.

influenced significantly by the 'water charges' component[1].

The observations in Figure 3.5 are highly significant for, if the price and volume indices for 'gross rents and water charges' are accepted as proxies for the price and quantity of housing services, the data is consistent with the assertion that, in the 1970's, the price per unit of housing increased significantly in the U.K. but the quantity consumed changed very little. In other countries quantity has changed more and price less. It will be argued in subsequent chapters that the relatively large price increase and small quantity increase in the U.K. is associated with housing policy instruments which have increased demand without having significant effects on supply. A contrast will be made with other countries where policy instruments have had more conspicuous effects on supply.

It would be wrong to view the United Kingdom's housing situation as one of high building costs or high rates of increases in building costs compared to the other countries,but the United Kingdom does clearly stand out as a country with high levels of household expenditure on housing, high rates of increase in consumers' housing costs, low levels of average incomes and low rates of growth of average per capita incomes.

---

(1) Separate data on gross rents is sparse but calculations from Eurostat data (Eurostat: Comparisons in real values of aggregates in ESA 1975 (1977))suggest that in 1975, in relation to total consumption expenditure, water charges were the following proportions of gross rent and water charges: West Germany 0.8%; France 3.9%; Netherlands 5.4%; U.K. 2.2%; Ireland 0.6%; Denmark 4.7%.

In the United Kingdom the view that housing consumption costs would, without government intervention,be too high to allow all households to achieve 'decent housing' is reflected in the emphasis on 'general assistance', which is not related to personal circumstances but in a 'blanket fashion' reduces the cost of housing consumption. It takes the form mainly of mortgage interest tax relief and Exchequer and rate fund contributions to local authorities' housing revenue accounts. The more sophisticated viewpoint, which sees housing as a problem of distributions of incomes and housing costs, has not become manifest in selective assistance and help for specific target groups to the extent that it has in some countries. This point will be developed in the next chapter.

## 3.3 The level of production

As Chapter Two showed, a significant goal of housing policy in each country has been to encourage the production of new houses and increase the level of maintenance and renovation in the housing stock. The basis of the housing problem according to some policy makers is that market forces fail to achieve output levels which are high enough to meet policy targets. In broad terms, two sets of reasons are given:

(a) 'Internal factors', within the construction industry.

Here the emphasis is on inefficiencies, or lack of rationalisation in the industry, which prevent cost reductions and therefore higher levels of output.

(b) 'External factors'.

In this case the emphasis is on the effect of macro-economic variables on the construction industry. The vagaries of

## Table 3.11 Increases in dwelling stock per 1,000 inhabitants

| | Dwelling stock per 1,000 Inhabitants | | Index Number for |
|---|---|---|---|
| | 1965 | 1980 | 1980 (1965=100) |
| Denmark | 340 | 413 | 121 |
| France | 351 | 436 | 124 |
| West Germany | 321 | 407(i) | 125(i) |
| Ireland | 240 | 263 | 110 |
| Netherlands | 264 | 334 | 126 |
| United Kingdom | 326 | 382 | 117 |

(i) 1979

Definitions

Dwelling Stock:

"The dwelling stock includes only conventional (permanent) dwellings, whether occupied or not. The dwelling stock does not include rustic (semi-permanent) and improvised housing units (e.g. huts, cabins, shanties), mobile housing units (e.g. trailers, caravans, tents, wagons, boats) and housing units not intended for human habitation but in use for the purpose (e.g. stables, barns, mills, garages, warehouses)." The U.N. Figures for France refer only to 'Principal residences'. The large number of 'second-homes' (at least 1.5 million) are thus excluded.

Dwelling:

"A dwelling is a room or suite of rooms and its accessories in a permanent building or structurally separated part thereof which by the way it has been built, rebuilt, converted, etc., is intended for private habitation. It should have a separate access to a street (direct or via a garden or grounds) or to a common space within the building (staircase, passage, gallery, etc.). Detached rooms for habitation which are clearly built, rebuilt, converted, etc., to be used as a part of the dwelling should be counted as part of the dwelling. (A dwelling may thus be constituted of separate buildings within the same enclosure, provided they are clearly intended for habitation by the same private household, e.g. a room or rooms above a detached garage, occupied by servants or other members of the household."

(U.N. Annual Bulletin of Housing and Building Statistics for Europe, 1981 pp 73-74).

Source of statistics: United Nations Annual Bulletins of Housing and Building Statistics for Europe.

Table 3.12 Size of dwellings (in the existing stock)

'Occupied Conventional Dwellings' by number of rooms per dwelling 1976.

| | % of Dwellings with | | | Average No. of Rooms per dwelling |
|---|---|---|---|---|
| | 1-3 Rooms | 4 or 5 Rooms | 6 or more Rooms | |
| Denmark | 51 | 48(i) | | 3.6(ii) |
| France (iii) | 53 | 38 | 8 | 3.5 |
| West Germany | 36 | 48 | 17 | 4.2 |
| Ireland | 23 | 51 | 25 | 4.6(iv) |
| Netherlands | 12 | 55 | 32 | 5.0 |
| United Kingdom(v) | 11 | 54 | 35 | 5.0 |

Notes (i) 4 Rooms or more

(ii) 1970

(iii) 1975

(iv) 1970

(v) Great Britain

Source: Calculated from Eurostat Social Indicators for the European Community 1960-78 (1980) Table VIII/3

Table 3.13 Pre-1919 dwellings as a percentage of the housing stock, c. 1977.

| | Percentage |
|---|---|
| Denmark | 23 |
| France | 38 |
| West Germany | 27 |
| Ireland | 38 |
| Netherlands | 17 |
| United Kingdom | 32 |

Source: U.N. Statistical Yearbooks.

interest rates and changes in government expenditure, for example, are alleged to create uncertainty and lead to fluctuations in output and lower long-run production levels than would materialise in a more stable environment. Alternatively, a low level of housing production might be viewed simply as a reflection of a generally low level of productive capacity in an economy.

Taking a wide view of production, 'internal factors' may be particularly important with respect to renovation. It has been argued (in France and West Germany in particular) that the construction industry is not well organised with respect to repairs and improvements. Inefficiencies with respect to small firms standards and reliability may be major obstacles. Additionally a special issue which arises with respect to renovation is externalities. In each country, arguments about low levels of modernisation view externalities, and the difficulty of occupiers and landlords receiving a reward, from individual action, sufficient to warrant the required expenditure, as a significant problem. This is the difficulty of atomistic decision-making. Property values are influenced by location and by the upkeep of neighbouring buildings and collective action may be necessary to achieve desired levels of improvement. Further difficulties arise from the problems experienced by low-income occupiers in obtaining the loans necessary for renovation and in dealing with the management problems associated with improvement work. This point is made strongly in the West German literature. (1)

The necessity for new building and modernisation, in order to meet housing standards, is determined partly by the size of the existing

---

(1) See, for example, Pfeiffer, U. (1976B), op.cit.

stock and its quality. A variety of statistics on the size of the stock are available but few proxies for quality are published in comparative form. Figure 3.6 shows that, in relation to population size, France has a larger dwelling stock than all the other countries[1] and, since 1972, the United Kingdom has had a relatively smaller housing stock than France, West Germany and Denmark. Table 3.11 shows that the increase in the dwelling stock was lower in the U.K. in the period 1965 to 1980 than in all the other countries except Ireland.

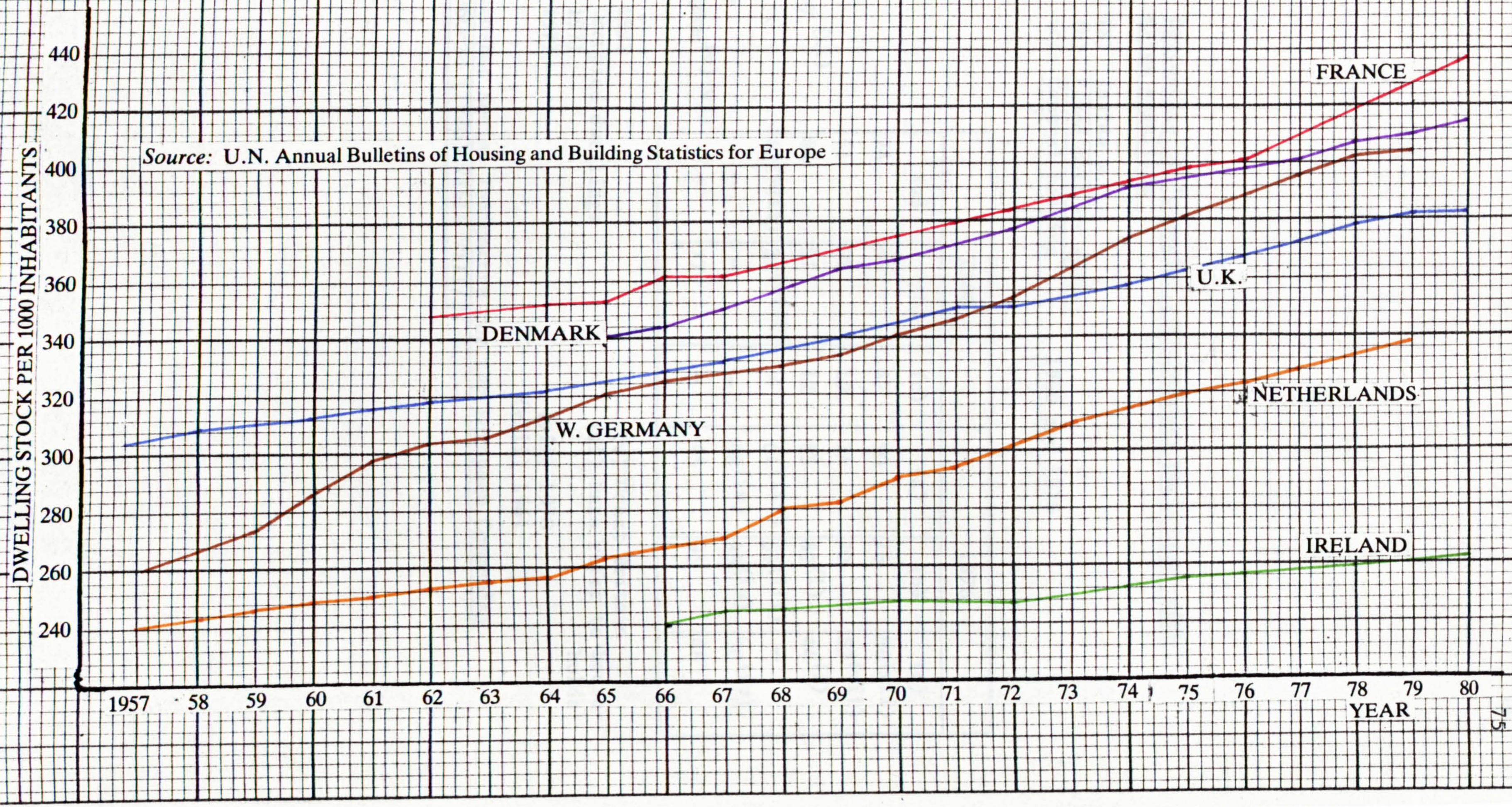
Measured by the number of rooms per dwelling British dwellings are, as Table 3.12 indicates, larger than those in France, West Germany, Denmark and Ireland. Tables 3.13 and 3.14 suggest that although the United Kingdom has a high proportion of pre-1919 dwellings (although less than in France or Ireland) the quality of the British housing stock measured in terms of provision of basic facilities is fairly high.[2] It also appears from Table 3.14 that there have been considerable increases in the quality of the housing stock in Denmark, France, and West Germany, in particular, since 1960.

---

(1) This is, furthermore, with second-homes excluded.

(2) The figures for basic amenities in Table 3.14 do, however, give a rather complimentary picture because they are (due to data deficiencies) for Great Britain rather than the United Kingdom. Statistics for 1971 show that, for example, while 9% of households in the U.K. lacked a fixed bath or shower the figure for Northern Ireland was 27%; and while 1.2% of households in the U.K. lacked a W.C. (internal or external) the figure for Northern Ireland was 10.5% (See H.M.S.O. (1975), Regional Statistics p.87). In 1981 3.3% of households in the U.K. were lacking or sharing the use of a bath; for Northern Ireland the figure was 9.6%, and 60% of households in the U.K. had central heating but only 36% in Northern Ireland (H.M.S.O.(1983), Regional Trends pp. 29 and 37).

Figure 3.6 Dwelling Stock per 1000 inhabitants 1957-1980




*Source:* U.N. Annual Bulletins of Housing and Building Statistics for Europe

Table 3.14 Percentage of 'occupied conventional dwellings' with given amenities

(a) Inside W.C.
(b) Fixed bath or shower
(c) Central heating 1960 and 1976

| | 1960 | | | 1976 | | |
|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (a) | (b) | (c) |
| Denmark | 74 | 45 | 47 | 90 | 76 | 84 (vii) |
| France | 41 | 29 | 19 | 74 | 70 | 53 (vii) |
| West Germany (ii) | 64 | 51 | 12 | 85 | 82 (i) | 44 (i) |
| Ireland | 43 (viii) | 33 (viii) | - | 64 (iii) | 56 (iii) | - |
| Netherlands | - | - | - | 98 (iv) | 98 (iv) | 56 (iv) |
| United Kingdom (v) (vi) | - | 77 | - | 95 | 95 | 48 |

Notes: (i) 1972
(ii) Occupied dwellings
(iii) 1971
(iv) 1977
(v) Great Britain
(vi) Data refer to households
(vii) 1970
(viii) 1961

Source: Eurostat Social Indicators for the European Community 1960-78 (1980) Table VIII/2

## Table 3.15 Rooms in additional dwellings

| | Average number of rooms in new dwellings(i) | | | Additional rooms per 1000 inhabitants (ii) | | |
|---|---|---|---|---|---|---|
| | 1970 | 1977 | 1980 | 1970 | 1977 | 1980 |
| Denmark | 4.5 | 4.9 | 4.9 | 46.1 | 34.8 | 29.4(iv) |
| France | 3.6 | 3.8(iii) | 4.0 | - | - | - |
| West Germany | 4.4 | 4.7 | 4.9(iv) | 33.9 | 31.1 | 26.4(iv) |
| Ireland | 5.0 | 5.1 | 5.5 | 23.1 | 38.2 | 44.9 |
| Netherlands | 5.1 | 4.0 | 4.0(iv) | 46.1 | 32.4 | 25.1 |
| United Kingdom | 4.5 | 4.5 | 4.5(v) | 29.6 | 25.4 | 19.3(vi) |

Notes: (i) Dwellings completed by 'all building activity'.

(ii) The data shows the number of rooms added to the stock by 'all building activity'(i.e. by new construction, conversions and improvements).

(iii) 1978

(iv) 1979

(v) 1979 figure was 4.6

(vi) 1979 figure was 20.0

(vii) "A room is defined as a space in a dwelling enclosed by walls, reaching from the floor to the ceiling or roof covering, and of a size large enough to hold a bed for an adult (4 sq.m. at least) and at least 2 metres high over the major area of the ceiling. In this category should fall normal bedrooms, dining-rooms, living-rooms, habitable attics, servants' rooms, kitchens and other separate spaces intended for dwelling purposes. Kitchenettes, corridors, verandas, lobbies, etc., as well as bathrooms and toilets, should not be counted as rooms."

(U.N. Annual Bulletin of Housing and Building Statistics for Europe 1981, p.74.

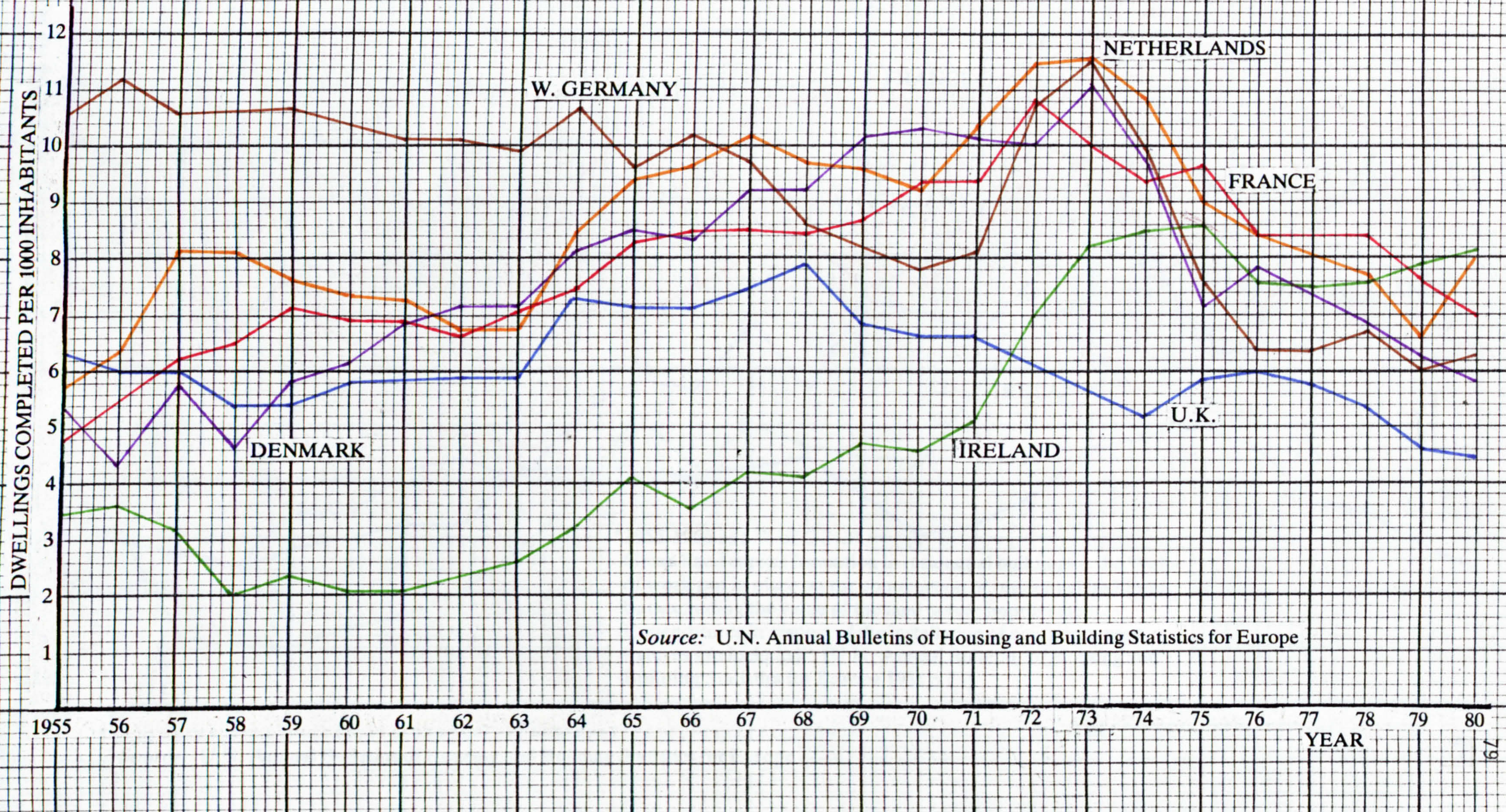
Source of Statistics: U.N. Annual Bulletin of Housing and Building Statistics for Europe, 1981.

Figure 3.7 shows the consistently low level of dwelling production in the U.K. In each year since 1959 the number of dwellings completed in relation to the size of population has been lower in the U.K. than in all the other countries except Ireland and, since 1972, production has been lower in the U.K. than *all* of the other countries. This low rate of housebuilding has been accompanied by a generally lower level of investment in housing in the United Kingdom. This is apparent in Figure 3.8 where 'gross fixed capital formation in residential buildings' includes expenditure on improvement work as well as new building. This low level of investment in housing is associated with a generally low level of investment in the U.K., as the information in Figure 3.9 shows, but the generally higher level of dwelling completions in France, the Netherlands, Denmark and West Germany is, also, a function of the greater emphasis given to the supply aspects of housing in these countries, the direct help given to public sector production and, in the case of West Germany, the Netherlands, and France to subsidies to private sector construction. (The details of the subsidies are given in Chapter Four).

The large increases in house building in Ireland in the 1960s and early 1970s reflected a continuing emphasis given to new production. While policy statements in the 1970s from the other countries suggested a switching of emphasis to renovation, the Irish government continued to stress the importance of new building. Much of the new production has been for owner-occupation and was helped, as Chapters Four and Seven will show, by direct subsidies to owner-occupiers purchasing new houses.

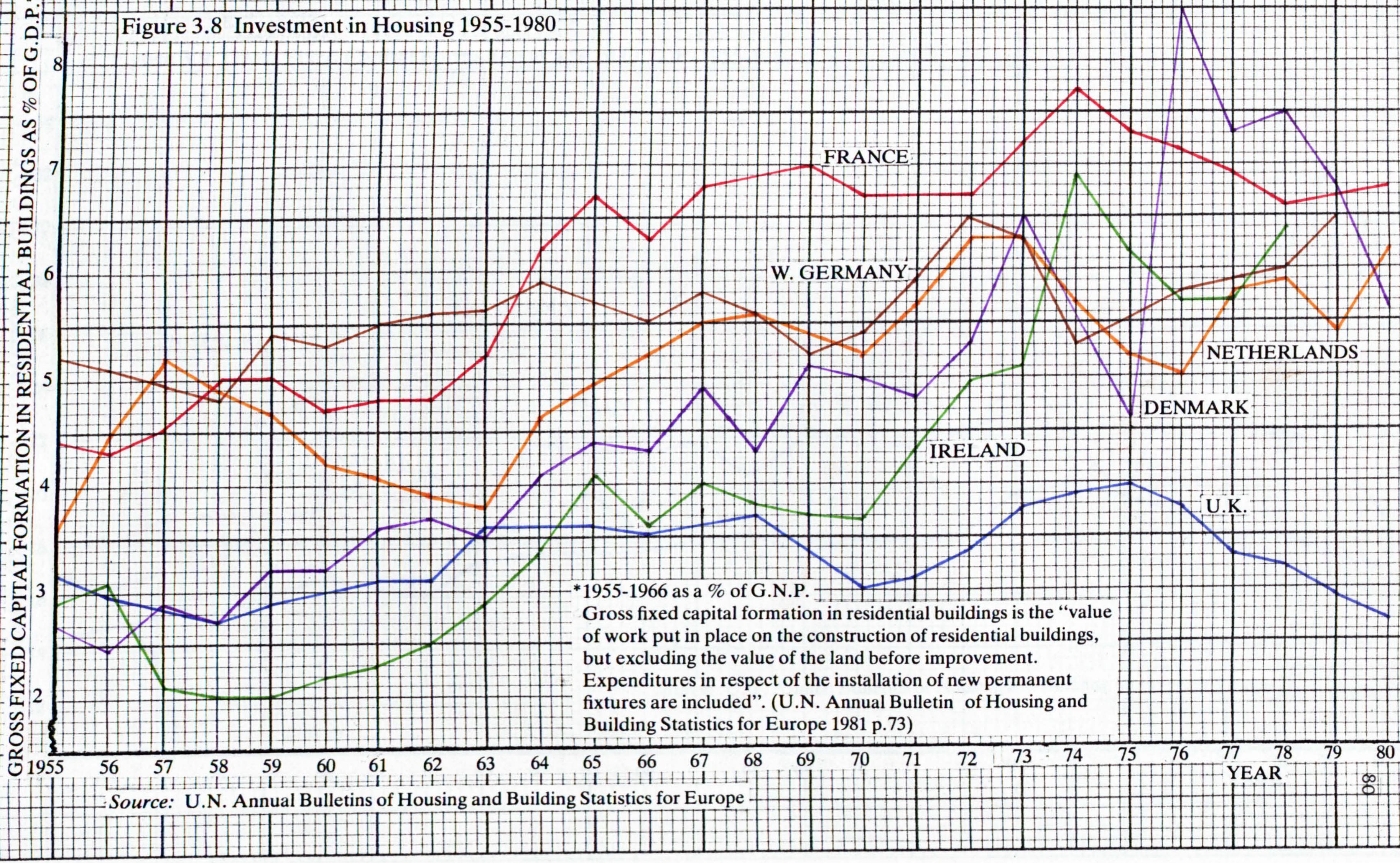
Relative to the size of population, the U.K. has fewer dwellings than France, West Germany or Denmark. The quality of the housing

Figure 3.7 Dwellings completed per 1000 inhabitants 1955-1980




*Source:* U.N. Annual Bulletins of Housing and Building Statistics for Europe

Figure 3.8 Investment in Housing 1955-1980

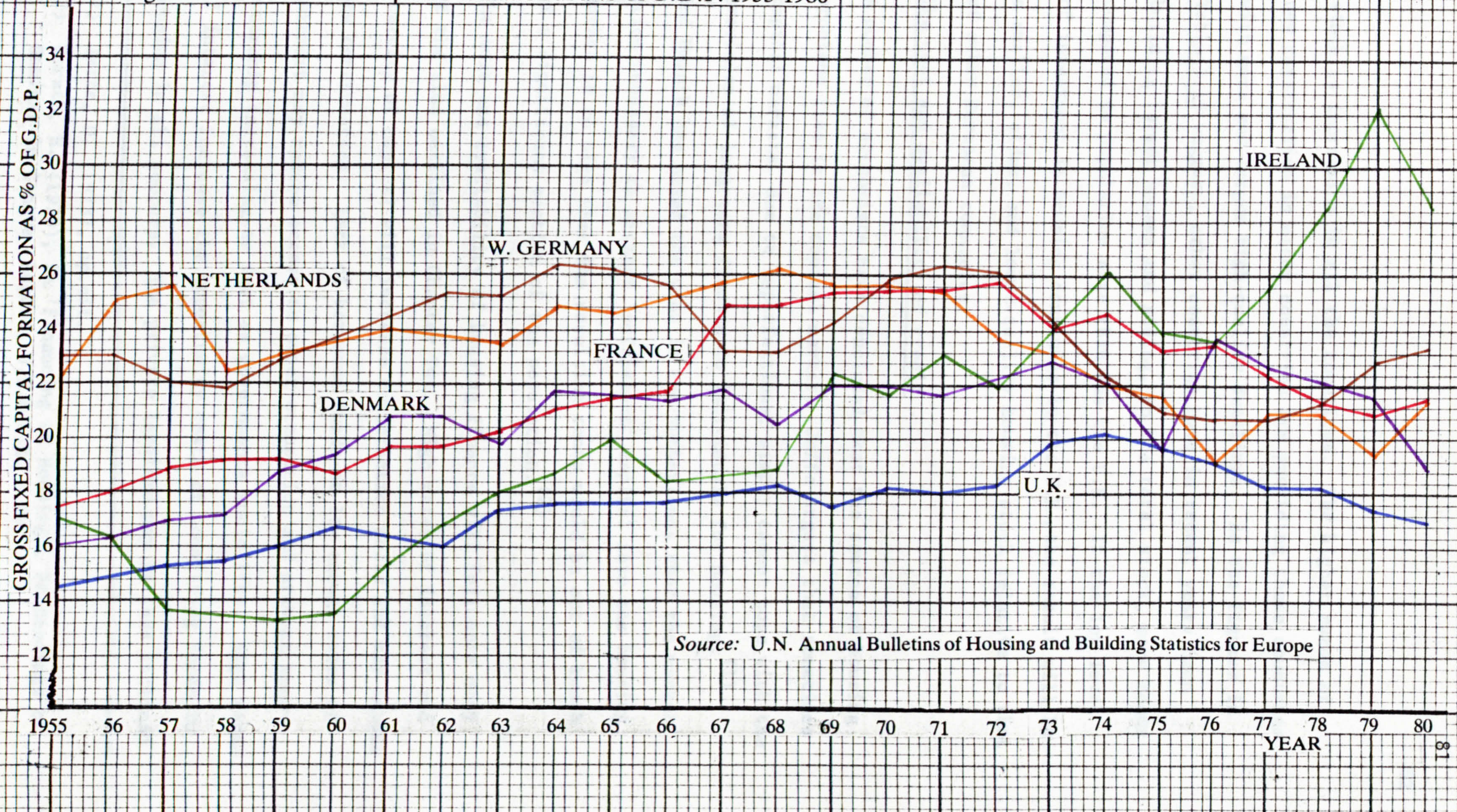



*1955-1966 as a % of G.N.P.

Gross fixed capital formation in residential buildings is the "value of work put in place on the construction of residential buildings, but excluding the value of the land before improvement. Expenditures in respect of the installation of new permanent fixtures are included". (U.N. Annual Bulletin of Housing and Building Statistics for Europe 1981 p.73)

*Source:* U.N. Annual Bulletins of Housing and Building Statistics for Europe

Figure 3.9 Gross Fixed Capital Formation as a % of G.D.P. 1955-1980




*Source:* U.N. Annual Bulletins of Housing and Building Statistics for Europe

stock is increasing in all the countires. The higher rates of new construction in other countries are providing these countries with more and larger high-quality dwellings. As the figures in Table 3.15 suggest, other countries have in recent years been building larger houses and adding, to the total stock, more rooms compared to population size than has the U.K. If the low level of investment in housing continues in the U.K., the result will be a smaller, older, and lower-quality housing stock relative to that of other European countries.

## 3.4 The cost and availability of credit

A number of economists have concluded that the source of housing problems lies in the capital market. Jaffe argues that sometimes capital markets, due to imperfections, simply cannot cope with the provision of long-term finance to individuals for housing,(1) and Umrath has noted the view in the Netherlands that the market price necessary to attract 'sufficient' capital into the housing market is so high that the resulting rents would be out of reach of a significant section of the population.(2)

The cost and availability of housing finance will influence many of the aims outlined in Chapter Two. High rates of interest and scarcity of capital will increase construction costs and may impede new construction. Lack of borrowed funds at low enough rates of interest may reduce access to owner-occupation and prevent home-ownership increasing as fast as governments would like. High rates of interest increase the opportunity costs of committing funds to housing in all sectors. The private landlord may be less inclined

---

(1) Jaffe, D. (1973), op.cit.

(2) Umrath, H. (1973), in 'Financing of Housing', Proceedings of Seminar in Geneva, August, U.N.E.C.E. p.60.

to invest in housing as interest rates rise, particularly if rent levels are held back by controls. In the Netherlands and Denmark, in particular, many rents have been cost-related and thus have risen as interest rates have increased. This is true principally of new rented accommodation. The rents of some new dwellings have thus risen above those of older properties, with comparable facilities, and 'rent-gaps'(1) have arisen, which have created problems of inequity and immobility.

There are strong links between this 'cost and availability of credit' perception and the 'income/housing costs' and 'production' perceptions of previous sections. Rising interest rates may increase housing costs and make it more difficult for households to achieve 'decent housing'. Improved access to capital by consumers may increase demand and help to raise housing output while increased access to capital by producers may directly shift supply. The distinctive feature of this perception is that, if credit supply is seen as a major barrier, governments may take action not in the housing market but in the capital market and hope that the consequence will be more housing production and consumption.

If less than a target level of credit is available to housing, monetary instruments might be used to generally increase the supply of credit (with the assumption that housing will retain at least a constant share of the total). Alternatively, governments might attempt to direct or persuade funds towards housing without necessarily increasing the total supply of credit.

The problem may be interpreted in more detail as one of achieving a particular distribution of housing credit between different housing

(1) See Chapter Five.

sub-sectors or, say, between housing producers and housing consumers. This might be done by, for example, governments underwriting loans to builders, but not house buyers.

In Figure 3.10, the cost and the availability of credit is considered. The volume of credit necessary to achieve housing aims is here given as OV. Assuming a perfectly competitive capital market, market forces, with demand for housing credit at $D_o$ and supply at $S_o$, give only OM funds to housing at a price of $i_0$. The market will supply OV only at a price of $i_1$. Government can assist the achievement of OV by a variety of means but basically by a shift of $D_0$ to $D_1$ or $S_0$ to $S_1$, or a combination of demand and supply shifts. Interest subsidies to consumers or producers may allow suppliers of credit to receive $i_0$ but consumers to pay $i_2$. Detailed discussion of these possibilities will be left to an analysis of instruments in Chapter Four.

The achievement of OV with government help in Figure 3.10 represents a diversion of funds towards housing, giving an allocation above the market solution. The diagram illustrates the concept of 'special circuits' which operate to "divert part of the flow of savings to a market specialised in housing finance and institutionally sheltered from other sectors of the financial markets".(1) Special circuits involve governments operating incentives or control measures to assure a larger and more stable flow of funds to housing and/or reduce the cost of housing finance.

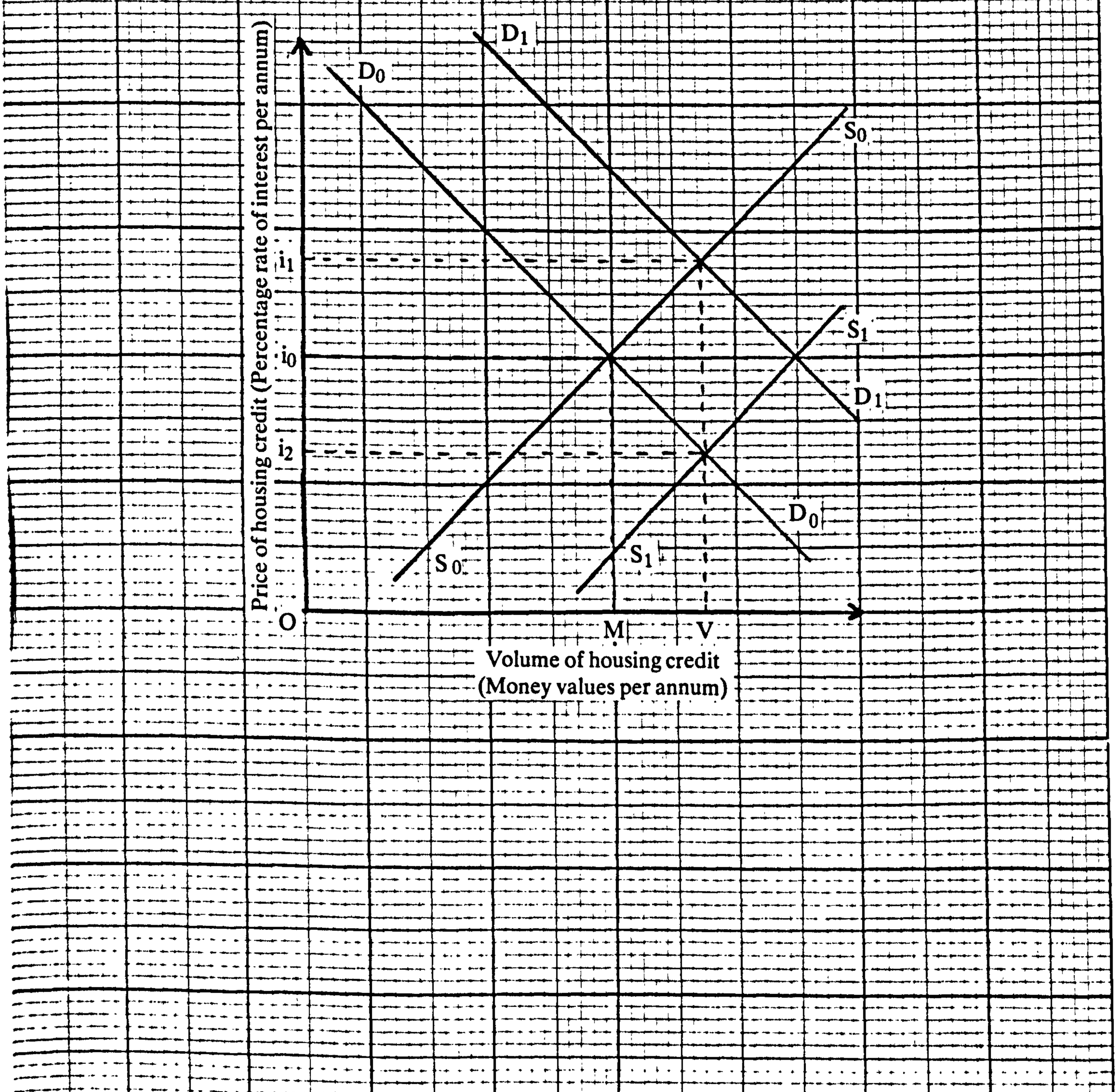
More funds for housing will clearly be made available by a shift of the demand or the supply curve of housing credit or both (see Figure 3.10). If governments want more funds to be supplied for

---

(1) O.E.C.D. (1974), 'Housing Finance : Present Problems', Paris, O.E.C.D., p.33.

Figure 3.10 Demand and Supply of Housing Credit

Target level of credit = OV.



housing, and lower interest rates to apply to such loans, a supply shift is necessary. As Chapter Four will show, special circuits have, in practice, involved governments giving some sort of tax concession or other privilege to housing finance institutions. There have thus been attempts to achieve moves like that from $S_0$ to $S_1$ in Figure 3.10.

It might not be only the *level* of interest rates and credit supply which cause problems but also *variations* in the cost and availability of credit. Instability in these variables have, in many countries, been viewed as a major cause of housing problems. For example, variations in credit costs increase the risks to builders and may increase the required rate of profit. Instability can be a major problem for the construction industry and thus governments sometimes attempt to insulate the industry from some of the fluctuations in the cost and availability of credit which results from either the operation of macro-economic policies or general market forces. Instability also creates differential access, through time, to consumers which may produce cost variations or periodic barriers to entry in the housing market. If governments view such variations as inequitable (e.g. as between different age groups) they may choose to take action to stabilise interest rates and the flows of funds over the medium and long term.

Although there is a variety of financial statistics for the different countries, including interest rates and some general figures about credit flows, detailed data which would facilitate a comparison of the amounts of credit available to the housing sector is not available. There are, however, many examples of policies designed to influence

housing finance. All the countries have policy instruments which influence the cost and availability of borrowed money for house purchase and construction. There are measures to influence the price and availability of funds from private sector financial institutions as well as the direct provision of credit by governments. West Germany, the Netherlands and France, in contrast to the other countries, have schemes to provide low-cost finance to private sector builders. The details of the various measures will be examined in Chapter Four.

As Chapter Seven will show, increasing owner-occupation has been frequently perceived in the U.K. as being primarily dependent on the cost and availability of credit to house purchasers. British policy on owner-occupation has thus concentrated on influencing the supply and net costs of mortgages but in other countries there have also been measures to influence the cost and availability of credit to housing suppliers. This difference of perception in the U.K. has produced a different mix of policy instruments which tend to subsidise credit for housing consumption comparatively more, but credit for housing investment less, than in West Germany, the Netherlands and France.

## 3.5 Allocation 'inefficiencies' and 'inequities'.

This perception of the housing problem concentrates attention on the use of the existing stock. There may, according to this view, be a sufficient number of dwellings; even sufficient dwellings of a 'high enough' standard, but the distribution of these dwellings may not accord with particular housing aims. An extreme version of this approach argues that countries may have enough or even too much

housing,[1] but that which exists is not used in a fashion which governments consider acceptable. It is an approach which emphasises the great diversity both of the housing stock and of the access to the stock by different households. It stresses the hetrogeneity of housing with respect to the price, size, quality and location of dwellings.[2]

Some policy makers consider that 'who gets what' is influenced in an 'unacceptable' fashion not only by market forces but also by the effects of past and existing legislation. Attempts to explain 'over-crowding' in certain parts of the stock and 'under-occupation' elsewhere conclude that policies which show a lack of discrimination with respect to income and family circumstances may encourage 'over-consumption' by, for example, high income owner-occupiers supported by mortgage interest tax relief. This has been argued, particularly, in the Danish context. Rent controls and security of tenure provisions may result in 'small size households' staying put in large dwellings while newly-emerging 'larger households' are denied access as a consequence of the immobility which such controls encourage.

In the Netherlands, it has been argued that high cost - related rents for new dwellings and significantly lower rents for older dwellings have resulted in periodically high vacancy rates in the newer stock, while the lower rents in the older stock are paid by tenants many of whom are receiving above average incomes and gained access when their incomes were lower.

---

(1) See, Clarke, M. (1977), 'Too Much Housing?',Lloyds Bank Review, October. pp. 17 - 33.

(2) See, King, M.A. and Atkinson, A.B. (1980), 'Housing Policy, Taxation and Reform', Midland Bank Review, Spring, pp.7-15.

National statistics hide many of the issues raised by this interpretation of housing problems. The West Germans, in particular, stress the geographical dimension to their housing problems, arguing that poor quality housing is concentrated in the centres of large cities and that there are important regional differences between demand and supply despite a statistical equilibrium nationally between households and dwellings. The theme of housing as a series of local problems is echoed in the British 'Green Paper'.(1) Regional statistics show the wide variations on housing conditions from one part of the United Kingdom to another, and especially, the poor quality of the housing stock in Northern Ireland compared to the rest of the United Kingdom.(2)

Administrative procedures may produce a relationship which is deemed to be inequitable. This may be particularly true for public rented housing if access is not governed by clear criteria or access varies greatly from area to area. British council housing rents vary greatly with location, and movement within the sector may be impaired by the operation of waiting-lists and 'points-systems'.

Detailed statistics necessary to investigate this perception of housing problems are not available in a comparative form. There is some information about the 'density of occupation' in the various countries. This is shown in Table 3.16. It shows a relatively

---

(1) H.M.S.O. (1977B), 'Housing Policy : A Consultative Document' Cmnd. 6851.

(2) See H.M.S.O. (1975), Regional Statistics p.87 and H.M.S.O. (1983) Regional Trends, pp. 29 and 37.

## Table 3.16 Density of occupation

Occupied conventional dwellings by number of persons per room and average number of persons per room 1971.

| | Number of Persons Per Room | | | Average |
|---|---|---|---|---|
| | < 1 | 1 < 1.5 | >1.5 | |
| | Percentage of dwellings | | | |
| Denmark (i) | 55.8 | 35.7 | 8.5 (iii) | 0.8 |
| France (N.A.) | | | | |
| West Germany (ii) | 74.9 | 21.9 | 2.0 (iv) | 0.7 |
| Ireland | 56.3 | 27.3 | 16.4 (v) | 0.9 |
| Netherlands | 81.1 | 17.9 | 2.0 (vi) | 0.8 |
| United Kingdom | 92.7 | 5.4 | 1.9 | 0.7 |

Notes : N.A. Data not available

(i) 1970

(ii) 1972

(iii) 2.5% > 2

(iv) 1.2% > 2

(v) 7.5% > 2

(vi) 0.2% > 2

Source: Eurostat Social Indicators for the European Community 1960-78 (1980), Table VIII/4

small proportion of dwellings with more than 1.5 persons per room, and a relatively high proportion with less than 1 person per room in the U.K., but the significance of these figures is not clear. There are no internationally agreed indices of under-occupation or over-crowding and statistics covering a wider range of values might be more meaningful. This is a matter for speculation, but it is tempting to suggest that on a useful index of over-crowding Ireland would score significantly higher than any of the other countries (Given, especially, the relatively high proportion of the housing stock with more than 2 persons per room).

For a more revealing examination of the 'allocation' perception more data is desirable. It would be useful to assemble information, for example, on:-

(a) the relationship between household size and dwelling size for different segments of the population;

(b) the degree of quality variance within the stock and the relationship between housing quality and household incomes;

(c) the relationship between housing quality and housing payments between and within different tenure groups;

(d) geographical variations in housing costs, incomes, and housing quality.

While detailed evidence on these points is not available there is, as later chapters will show, an assumption by some governments that significant inequities result from the fact that some rents do not fairly reflect the quality of accommodation offered and that there are certain inequitable relationships between incomes and rents. The distributions of rents and incomes across the stock and between

households thus results in, for instance, some low-income households living in low-quality, high-rent, dwellings while some high-income households live in high-quality, low-rent, dwellings.

In addressing themselves to allocation inequities policy makers have been concerned, in each country, with at least one of the four types of equity identified in Chapter Two. These are: an equitable relationship between:-

(i) the incentives offered by government to different tenure groups to consume more housing services;

(ii) payments for different units of accommodation;

(iii) the proportions of income spent on housing by different households, and

(iv) an equitable physical distribution of the housing stock between households of different size.

From the policies adopted, it is clear that governments assume that (i), (ii) and (iii) influence (iv). Government policy initiatives such as 'rent harmonisation' (which will be examined in Chapter Five) and housing allowances (which will be examined in Chapter Six) are related to achieving distributions between household resources and housing costs which will hopefully improve the use of the stock, in the sense of achieving a pattern of use which governments consider more efficient and more equitable. There are also, as Chapter Four will show, many examples of more direct measures by governments to influence the use of the housing stock; for example, giving public sector housing suppliers guidelines concerning what household characteristics should be considered when allocating housing and, in the Netherlands, the use of 'residence permits'

to influence allocation in the Randstad area.

## 3.6 Conclusions

The statistics presented suggest that the U.K's position can be summarised in the following way: It has had relatively low levels and low rates of increase in both incomes and building costs. The high proportion of household expenditure devoted to housing contrasts with the relatively low level of investment in housing. The U.K. has a relatively smaller housing stock than France, West Germany and Denmark and the higher levels of investment in these countries suggest that both the size and quality of the housing stock are increasing faster than in the U.K.

It has been suggested that governments intervene in housing markets in order to achieve certain normatively defined standards of housing production and consumption. Action by governments to achieve these standards and satisfy the specific policy aims, identified in Chapter Two, is necessary because, according to varying perceptions, there exist impediments in:-

(a) the relationship between incomes and housing costs;

(b) the level of dwellingproduction;

(c) the cost and availability of credit;

(d) the allocation of the existing stock.

The inability of households to achieve desired housing standards may be viewed in terms of the relationship between income levels and housing costs. Governments might conclude that incomes generally are too low or the incomes of certain groups are too low. This approach suggests policies to (1) raise incomes generally, (2) redistribute incomes, (3) reduce housing costs

generally or (4) reduce housing costs for specific groups.

If governments conclude that housing standards are too low because of insufficient production then policies to encourage more house-building or more improvement work may be introduced. The low level of housing investment in the U.K. has persisted for many years, even during times when real incomes were higher compared to other countries.

A perception of housing problems which concentrates attention on the capital market focuses on the cost and availability of credit to both housing consumers and producers. Unfortunately there are no statistics which allow comparison of the value of credit flows to the housing sector in different countries nor the cost of borrowed funds allocated to housing. There are, however, many examples, as subsequent Chapters will show, of policy instruments that are designed to influence these flows and the cost of credit to the housing sector.

The 'allocation' view of housing leads to suggestions for measures to influence the efficiency and equity of the allocation of housing services, from different parts of the stock, to different household groups. It is a perception of housing problems which invites governments to make judgements about the equity of the relationships between differing household circumstances and the characteristics of the dwellings they occupy.

The four categories of housing perceptions that have been identified are not watertight boxes. There is much overlap between them. Thus, low levels of production may, for example, be a function of low income levels and housing costs may be significantly

influenced by capital market problems. Allocation issues may be partly problems of relationships between increasing interest rates and differential access to the capital market. This overlap will not be ignored in subsequent analysis but the classification system is a useful organisational device and it creates a framework within which alternative housing policy instruments will be examined in Chapter Four.

It would be wrong to attempt to ascribe particular perceptions to countries. The idea of a national perception of housing problems is unrealistic. As has been argued in this Chapter, perceptions vary within and between countries. It can, however, be suggested that certain perceptions are stronger in the academic and political literature in some countries and that certain perceptions are reflected more clearly than others in governments' policy actions. In the U.K. the view that housing is a problem of production has been mistakenly put to one side. The cost and availability of credit has been viewed largely in relation to housing consumers rather than producers. A distributional view relating to the use of the stock or to the relationship between distribution of incomes and a distribution of housing costs has not been strongly reflected in policy measures.

The perception most clearly reflected in policy action in the U.K. is one which views housing problems in terms of a general relationship between incomes and housing costs and thus fosters a concentration on 'general assistance' which "is by its very nature not directly related to ability to pay". (1) The housing policy

---

(1) H.M.S.O. (1977B), op.cit., p.32.

'Green Paper' argued against a large reduction in general assistance claiming that "the probable net outcome would be increased costs for the household, leading to a reduction in effective demand and therefore lower investment in housing".(1) As the information in this Chapter has shown, compared with other countries, investment in housing has been very low in the U.K. Subsequent Chapters will show that other European countries have put more emphasis on policy instruments which directly encourage investment.

---

(1) ibid., pp. 32-33.

# CHAPTER FOUR

# POLICY INSTRUMENTS

Contents


| | | Page |
|---|---|---|
| 4.1 | Introduction | 99 |
| 4.2 | Policy instruments associated with the relationship between incomes and costs | 103 |
| 4.3 | Policy instruments associated with the level of production | 118 |
| 4.4 | Policy instruments associated with the capital market and interest rates | 142 |
| 4.5 | Policy instruments associated with an inefficient or inequitable allocation of the existing stook | 159 |
| 4.6 | Measuring the value of subsidies : direct and indirect subsidies | 171 |
| 4.7 | Object and Subject subsidies | 184 |
| 4.8 | Conclusions | 185 |


List of Tables


| | | |
|---|---|---|
| Table 4.1 : | Housing Policy Instruments : A Classification System | 100 |
| Table 4.2 : | Lending for house purchase : Major Institutional sources, U.K. 1974-77 | 153 |
| Table 4.3 : | Direct and Indirect Subsidies, Denmark 1976/77 | 174 |
| Table 4.4 : | Housing subsidies, Ireland, 1975 | 177 |
| Table 4.5 : | Housing subsidies, West Germany, 1978 | 179 |
| Table 4.6 : | Housing subsidies, U.K. 1975/6 | 180 |
| Table 4.7 : | Subsidies (average per household in each sector) by market-value method, U.K. 1973 | 181 |

List of Figures


| | | Page |
|---|---|---|
| Figure 4.1 : | Supply subsidies and elasticity of demand | 106 |
| Figure 4.2 : | Changes in housing costs over time | 109 |
| Figure 4.3 : | The housing market, new house production and the land market | 119 |
| Figure 4.4 : | Demand and supply of new houses under alternative demand conditions | 129 |
| Figure 4.5 : | Demand and supply of new accommodation to be rented | 134 |
| Figure 4.6 : | M.I.T.R. and the demand and supply of credit | 143 |
| Figure 4.7 : | A 'closed' system of housing finance and the demand and supply of credit | 148 |
| Figure 4.8 : | Credit to housing and 'non-housing' | 148 |
| Figure 4.9 : | Volume of mortgages supplied by non-government financial institutions and government. | 154 |

## 4.1 Introduction

The principal aim of this chapter is to examine the range of policy instruments used in the countries studied. This will show the variety of instruments available to tackle specific problems and facilitate an analysis of the possible effects of alternative combinations of policy instruments. A classification system has been presented in Table 4.1. This is based on the analysis of the 'causes' of housing problems which was developed in Chapter Three.(1) For each 'cause' a series of 'types of policy instrument' has been identified and examples from the different countries are given. The West German 'Wohngeld' is, for example, a housing allowance which alters the relationship between incomes and costs (column i) and is partly designed to achieve a more equitable distribution of the housing stock (column iv). The Danish 'Rentesikring' is a subsidy paid to housing associations which reduces their costs and therefore has a place in column i but it is also intended to encourage production (column ii) and reduce interest costs (column iii). A single policy instrument can thus be used in relation to a number of causes.

This chapter is concerned with the full range of housing policy instruments. Subsequent chapters will give a more elaborate treatment of the policy instruments that are common to all the countries in this study and for which a reasonable amount of comparative information is available.

---

(1) 'Cause' is used in the same sense as that adopted in Chapter Three where it was used to indicate policy makers' perceptions of those factors which, in the absence of some action by government, impede the realisation of policy aims.

**Table 4.1: Housing Policy Instruments: A Classification System**

| Type of Instrument | 'Causes' of Housing Problems | | | |
|---|---|---|---|---|
| | (i) Relationship between Incomes and Costs | (ii) Too low a level of Production | (iii) Capital Market shortages and high interest rates | (iv) Inefficient or Inequitable allocation of the stock |
| (a) Description | Housing allowances i.e. grants to households which reduce annual housing costs. Size of grant related to household income. | Measures to increase the demand for owner-occupied dwellings ('New' and 'Old') | Measures to reduce the cost of credit to housing consumers. | Measures to relate housing payments to (a) Size and quality of dwellings and (b) ability to pay by housing allowance schemes. |
| Examples | WG: 'Wohngeld' (All sectors)<br>NL: Individuele Huursubsidie (Rented only)<br>DK: 'Boligsikring' (Rented only)<br>FR: 'Aide Personalisée au logement' (A.P.L.) (All sectors)<br>I : 'Differential Rents'. (L.A. rented)<br>UK 'Rent Rebates' (L.A. rented) Rent Allowances (Private rented) | NL. ) DK. ) FR. ) I. ) UK. ) M.I.T.R. and other tax concessions<br>Plus measures to increase the availability of credit: see iiic and iiid | WG: Support for 'closed' Bausparkassen system plus 'Wohngeld'.<br>FR: Support for Epargne-Logement and Credit Foncier and A.P.L.<br>Plus M.I.T.R. see iia | WG: 'Wohngeld'<br>NL: 'Individuele Huursubsidie'<br>DK: 'Boligsikring'.<br>FR: A.P.L.<br>I: 'Differential Rents'<br>UK: Rent rebates and allowances |
| (b) Description | Construction grants and operating subsidies to reduce housing costs (In some cases with conditions regarding the incomes of households) | Measures to increase the demand for *new* owner-occupied housing. | Measures to reduce cost of credit to housing suppliers. | Measures to relate housing payments to size and quality of dwellings by 'harmonizing' rents of old and new dwellings. |
| Examples | WG: 1st Forderungsweg and 2nd Forderung sweg.<br>NL: Grants for 'Premium Dwellings'<br>DK: 'Rentesikring' (Non-profit housing only)<br>FR: 'Prêts Immobliers Conventionnés'<br>I : Grants to L.A.'s<br>UK: Grants to L.A.'s and H.A.'s. | NL: Grants for 'Premium Dwellings' (for low income occupiers of new houses)<br>I : Lump sum grants for first time buyers of new houses. | WG: Low interest loans to N.P.H.<br>DK: 'Rentesikring'<br>FR: 'Cheap' Credit Foncier loans to H.L.M.'s<br>I : Subsidised loan charges of L.A.<br>UK: Exchequer Housing Revenue Account subsidies. Grants to Housing Associations.<br>Plus measures in iic | NL: Changes in rent controls and introduction of d.c.p.r.<br>DK: Harmonisation measures: 1966 and 1975 'Pacts' (Changes in rent controls and N.P.H. subsidies)<br>I, UK } 'Rent-Pooling' by L.A.'s. |
| (c) Description | Rent controls: two basic types:- (A) Regulation of rents as condition of subsidy (B) Control by edict | Measures to reduce the construction costs of private builders. (Construction firms in the private sector receive the aid) | Measures to increase the volume of funds to housing consumers by direct provision of loans. | Regulations which give upper income limits for social housing. |
| Examples | WG: Rents of social housing under 1st and 2nd Forderungsweg (A)<br>NL: Rent restrictions especially in 'Randstad'<br>DK: 'Economic Rents' (in certain areas) (A and B)<br>FR: Rent Restrictions (A and B)<br>I : 'Lawful Rents' (B)<br>UK: Rent controls (B) | WG: 'Cheap' loans under 1st and 2nd Forderungsweg<br>NL: 'Cheap' loans and guarantees for 'Premium Dwellings'.<br>FR: 'Cheap' loans: 'Prêt Immobliers Conventionnés'. | FR: Mortgages from State controlled banks, e.g. via Credit Foncier<br>I, UK) L.A. mortgages | WG: Rules under 1st and 2nd Forderungsweg<br>FR: 'Sur Loyer' for H.L.M. dwellings (but being replaced under 'Barre' proposals). |

Table 4.1 (Continued)

| Type of Instrument | 'Causes' of Housing Problems (i) Relationship between Incomes and Costs | (ii) Too low a level of Production | (iii) Capital market shortages and high interest rates | (iv) Inefficient or Inequitable allocation of the stock |
|---|---|---|---|---|
| (d) Description | Other measures to reduce annual housing costs of owner-occupiers | Measures to reduce construction costs of non-profit housing associations or municipalities | Measures to increase the volume of funds to housing consumers by 'special circuits' and loan guarantees | Regulations which set size of dwelling limits for 'social housing'. |
| Examples | WG: 7b Einkommsteur (Tax-depreciation allowance)<br>NL: M.I.T.R.<br>DK: M.I.T.R. and other concessions.<br>FR: M.I.T.R.<br>I : M.I.T.R. and low start mortgages | WG: Loans and grants under 1st and 2nd Forderungsweg and tax concessions for certain non-profit firms.<br>NL: Direct provision of loans plus grants to N.P.H.<br>DK: 'Rentesikring' plus loans<br>FR: 'Cheap loans' to H.L.M. organisations<br>I Subsidised financing of L.A. housing<br>UK Housing Revenue Account Subsidies for L.A. Housing and subsidies to H.A.'s | WG: Support for Bausparkassen savings system<br>NL: Mortgage guarantees for owner-occupiers<br>FR: Support for Epargne-Logement system<br>I ) Tax concessions<br>) for building<br>UK) societies | WG: 1st and 2nd Forderungsweg regulations (Indirect financial controls elsewhere: see text) |
| (e) Description | | Measures to encourage the improvement of housing (Assistance to N.P.H. L.A.'s and private owners) | Measures to increase the colume of funds to housing suppliers by direct provision | 'Allocation rules' for rental housing |
| Examples | | WG: Grants and loans to N.P.H., municipalities and private owners.<br>NL: Improvement grants and loans<br>DK: Grants to N.P.H., municipalities and private owners<br>FR: Improvement grants to H.L.M.s and private owners<br>I : Improvement grants and loans to L.A.s and owner-occupiers<br>UK: Improvement grants to private owners and housing associations and Housing Revenue Account Subsidies. | WG:)<br>NL:) loans to<br>DK:) N.P.H.<br>FR:)<br>I :) loans to<br>UK:) L.A.s and H.A.s | FR: Government priority lists for H.L.M. dwellings<br>NL: Municipal lists and Wonnvergunning (residence permits) in Randstad |

Table 4.1 (continued)

| Type of Instrument | 'Causes' of Housing Problems (i) Relationship between Incomes and Costs | (ii) Too low a level of Production | (iii) Capital market shortages and high interest rates | (iv) Inefficient or Inequitable allocation of the stock |
|---|---|---|---|---|
| (f) Description | | | Measures to increase volume of funds to housing by promoting 'special' funds (which are funded from 'non-government' sources) | 'Allocation rules' for owner-occupier housing. |
| Examples | | | DK: National Building Fund for Non-Profit housing<br>FR: Employers '1% housing contribution' | NL: Randstad housing restrictions governing purchase of private houses, plus Woonvergunning |

Abbreviations:

| | | | |
|---|---|---|---|
| WG: | West Germany | N.P.H. | Non-Profit Housing Associations |
| NL: | Netherlands | H.L.M. | Habitation à loyer modéré |
| DK: | Denmark | d.c.p.r. | dynamic cost price rents |
| FR: | France | A.P.L. | Aide Personalisée au logement |
| I : | Ireland | M.I.T.R. | Mortgage Interest Tax Relief |
| UK: | United Kingdom | L.A. | Local Authority |
| | | H.A. | Housing Association. |

Some policy discussions make a distinction between direct subsidies, which involve a money payment by the Exchequer, and indirect subsidies, which accrue in the form of tax savings or rent reductions, for example, and which do not involve direct Exchequer funding. Some of the subsidies in Table 4.1 are direct and others indirect. This distinction, which is central to the problem of measuring the money values of housing subsidies, will be examined in section 4.6. The problem, of measuring the money values to recipients and the Exchequer costs of subsidies are set out, and, while reference will be made to attempts at estimating the order of magnitude of direct and indirect subsidies in some of the countries, it will be argued that one cannot compare in a meaningful fashion the level of intervention in housing markets or the value of subsidies in different countries.

Amongst academics and policy makers in Europe there has been much discussion about the distinction between object and subject subsidies. Object subsidies are paid to the suppliers of housing services and subject subsidies are paid to households. The issue will receive some attention in section 4.7 and will be taken up again in Chapter Six in order to compare a principal form of subject subsidy - housing allowances - with the object subsidy alternatives.

## 4.2 Policy instruments associated with the relationship between incomes and costs.

These instruments seek to increase, for selected groups, the income available for housing consumption, or to reduce the costs of housing consumption.

## (i)(a)[1] Housing Allowances

A housing allowance is a payment to households to help meet housing costs. It varies with household income and with housing costs. The size of the allowance for any household is some function of housing costs and a 'reasonable own contribution' to housing costs.

Thus, $A = \alpha (R - P)$

where $0 < \alpha \leq 1$

A is the money value of the allowance,

R is asking rent for tenants or, for owner-occupiers, mortgage payments or some imputed measure of housing costs.

P is typically some function of household income and household size and usually larger for owner-occupiers than for tenants with similar incomes and household size.

Housing allowance schemes can apply to all tenures or only selected tenures. The West German Wohngeld and the French Aide Personalisée au Logement (A.P.L.) apply to all sectors although in each case the proportion of owner-occupiers receiving allowances is relatively small. The Danish and Dutch schemes apply only to rented housing. The Irish differential rents scheme applies only to local authority rented housing. In the U.K. there are schemes for local authority and private sector tenants. The term 'housing allowance' as used here does not embrace the theoretical notion of a 'universal housing allowance', the payment of which would not necessarily be dependent on an individual household's housing costs.[2]

---

(1) The sub-section numbers and letters in brackets identify a column and row in Table 4.1.

(2) See Chapter Six.

The selectivity of housing allowances contrasts with 'general assistance' which reduces housing costs for wide sections of the population without any particular regard to income levels or other household circumstances. An analysis of housing allowances will be undertaken in Chapter Six, with the aid of detailed information about the schemes in different countries.

(i)(b) Construction and operating subsidies to housing suppliers to reduce households' annual housing costs.

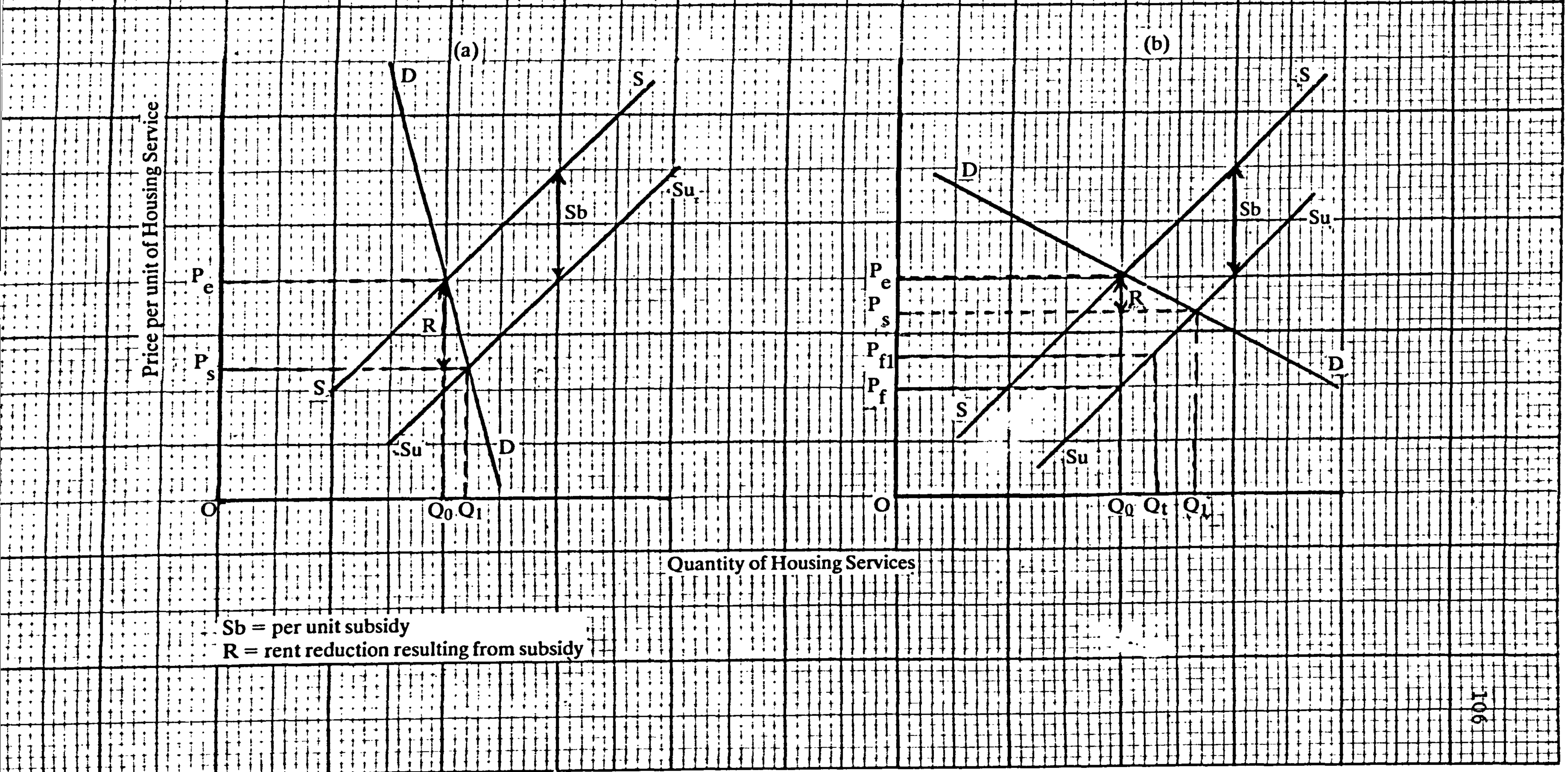
Payments can be made to housing suppliers so that they charge consumers less. If the price reduction to the consumer is left to market forces the outcome will depend on elasticities of supply and demand.

Consider Figure 4.1. This shows flows of demand and supply. DD shows the different amounts of housing services demanded by households per time period at varying price or rent levels. The supply curves show the quantities offered by suppliers per time period at varying price and rent levels. It is assumed that there is a freely competitive market structure.

Assume the supply curve of accommodation, before subsidy, is SS, and the demand curve is DD. Market prices (capital values or rent levels) are $OP_e$. The government's aim is to reduce prices to the consumer so more households can afford 'decent' accommodation. It attempts this by a per-unit subsidy, equal to Sb, to all housing suppliers. This reduces prices by R.

The same reasoning and notation applies in Figure 4.1a and 4.1b but R is smaller in 4.1b, because of the relatively elastic demand.

**Figure 4.1 Supply Subsidies and Elasticity of Demand**



The more inelastic is demand the greater is the price reducing effect of a supply subsidy.

The subsidy will also have quantity effects. The increase in supply ($Q_1 - Q_0$) is greater in the relatively elastic demand case (4.1b). If government wishes to reduce the quantity effect and increase the rent-reducing effect of the subsidy for tenants, this can be achieved by rent controls. Assume that Figure 4.1b relates to rented accommodation. If rents are fixed at $OP_f$, the quantity effects are minimised and the rent-reducing effects maximised. $OQ_0$ units are supplied (as in the original situation) but rents are at $OP_f$ and $OP_e$ minus $OP_f$ per dwelling is received by landlords as a subsidy.

It would be realistic in terms of the policies adopted in Europe to assume that SS is a supply curve of 'decent accommodation' and at $OP_e$ certain households (equal in number to $Q_t$ minus $Q_0$ in Figure 4.1b) are denied decent accommodation because of their inability or unwillingness to pay market rents. The government thus requires from subsidies some quantity and some rent reducing effect. If rents are fixed at $OP_{f}$, with subsidy Sb paid, $Q_t$ units of accommodation are supplied. A given mix of subsidy and rent-controls has achieved the desired result.

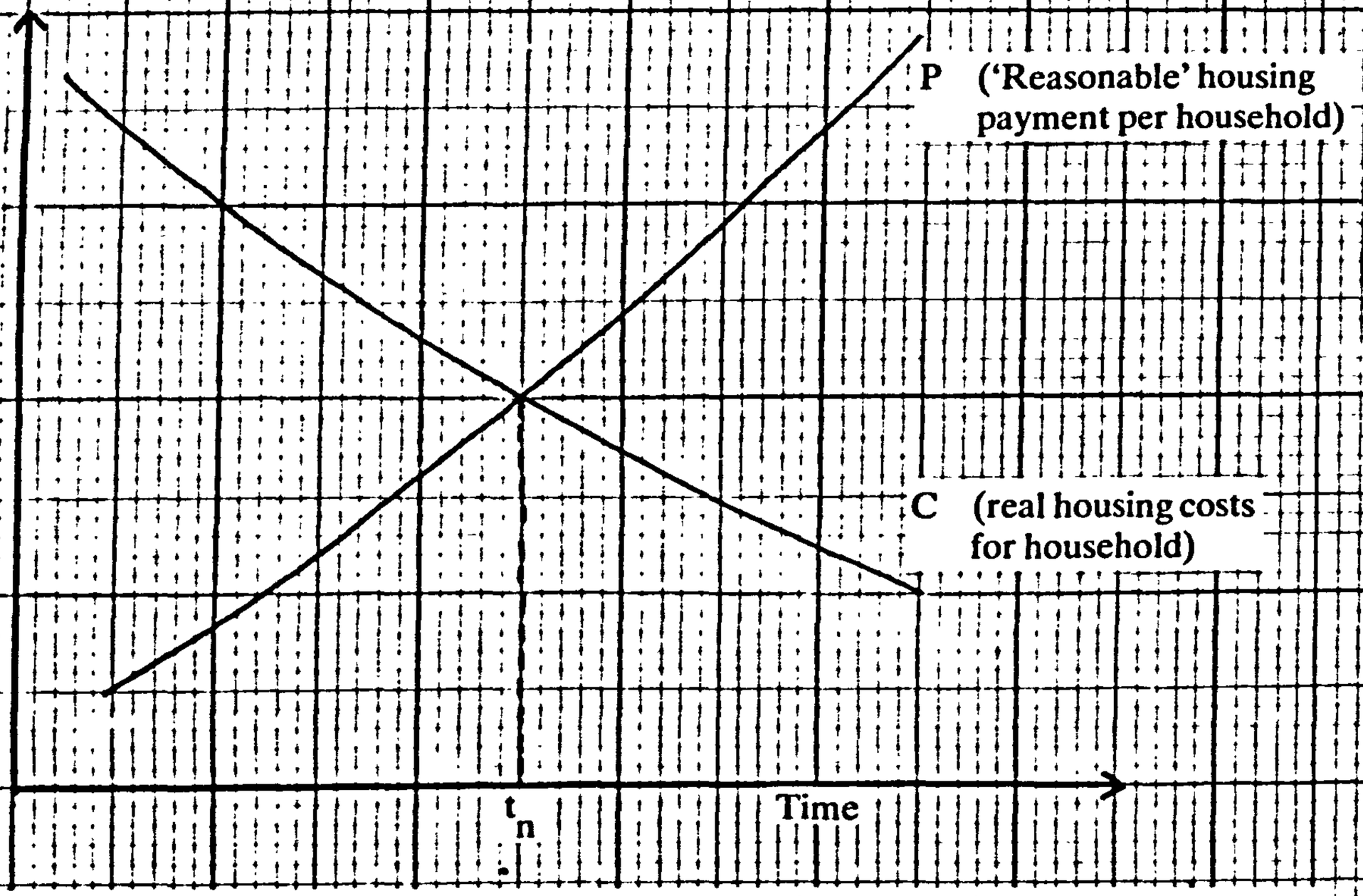
In practice the price reducing consequences of subsidies to housing suppliers are rarely left to market forces. Some cost subsidies aim to reduce housing costs to particular groups and alter the pattern of rents or housing payments rather than achieve housing payment reductions for all households. This is attempted in some countries by subsidising only a particular type of accommodation (say dwellings below a given size) and setting maximum income

levels for the occupants.

A further aim is to alter the pattern of housing costs through time. For new construction a major cost is meeting the interest and amortisation payments on loans. The experience of post-war Europe has been that, for most investors in housing, the real cost of these payments typically fall from year to year. This is the phenomena which is often referred to as 'front-loading'. It is especially significant with fixed interest loans where constant money repayments, coupled with general inflation, result in a falling real cost of repayments. Even if interest rates vary, the repayments may still increase less than the general price level. Household incomes, and thus rent paying ability, have tended to increase in real terms. Thus, through time, the 'housing-payment/housing-cost gap' becomes smaller. This is shown in Figure 4.2. A subsidy equal to the difference between housing costs and the household's own contribution (C minus P) can be degressive having a zero value at time $t_n$. This is a practical feature of many subsidy schemes in Europe.

Grants in West Germany under the subsidy schemes termed the First and Second Forderungsweg (hereafter abbreviated to 1FW and 2FW) are paid to non-profit housing associations and private developers who agree to set rents according to a specific formula. The rents are controlled by the Länder and vary according to the statute in effects at the time of construction. The maximum rents in 1978 were between DM3.75 and DM5.50 per square metre for new buildings.

Figure 4.2 Changes in Housing Costs Over Time




Notes: (i) P may be defined as some proportion of household income.
(ii) It is assumed that the value of C is mainly determined by borrowing costs.

The West German Federal Ministry for Regional Planning, Building and Urban Development estimates that without subsidy the cost-price rents would have been between DM11 and DM14 per square metre. The rent restrictions apply for a period of 50 years from the date of the dwelling's completion. Rents are geared to increase, on average, by DM1 per square metre every three years. The total construction cost of eligible dwellings is limited by the Länder. The 1978 average limit was DM112,500.

There are income limits governing those who can occupy the sozialwohnungsbau (social housing) constructed under 1FW and 2FW. Under 1FW the 1978 income limits were: one person DM18,000 p.a.; two persons DM27,000 p.a., plus DM4,000 per child. It is estimated that 40 per cent of the population was within this range. The income limits under 2FW were about 40 per cent higher i.e. one person DM25,200 p.a.; two persons DM37,800 p.a. plus DM5,880 p.a. per child. This brought about 60 per cent of the population within the income limits for sozialwohnungsbau. The value of the subsidy varies between 1FW and 2FW. The aid is degressive under both schemes. Under 2FW the grants have a given value per square metre and decline by 25 per cent of the original value every three years, so that they fall to zero after 12 years. Owner-occupied housing can receive benefits under 1FW and 2FW as long as the relevant cost, size, and income limits are satisfied. The full capital value of the grant must be passed on as a price reduction. The size limit for owner-occupied one family dwellings is 130 square metres. Rental apartments must not exceed 90 square metres under 1FW. Under 2FW the size limits are 20 per cent higher.

In the Netherlands 'premium dwellings' for renting are built by private investors with the aid of a state subsidy. There are size and cost limits and the income of tenants most not exceed prescribed maxima. In addition, the rents are controlled by a government formula: the dynamic-cost-price-rent formula (d.c.p.r.) which was introduced in 1976. This sets initial rents at low levels and allows rents to rise over time. The introduction of this scheme resulted in a large fall in the number of new premium rented dwellings. Developers argued that the d.c.p.r. levels were too low to allow sufficient profits.

The production figures for premium rented dwellings fell from

29,271 in 1974 to

5,200 in 1977.

(Source: Building Societies Association)[1]

The 'housing ministry' now acknowledges that d.c.p.r. played a significant part in causing the output of these dwellings to fall.[2]

Danish non-profit housing associations receive various subsidies which are intended to allow them to set rent levels lower than would otherwise be the case. The 'Rentesikring' is a payment by government towards the interest charges on capital borrowed on the open market. 74 per cent of funds were in 1979 supplied by open market

---

(1) Building Societies Association (1979A), 'Building Societies and the European Community', Volume 2: Appendices, p.143. (Unpublished Report supplied by Building Societies Association).

(2) Ministry of Housing and Physical Planning, The Hague (1977, 'Current trends and policies in the field of housing, building and planning' pp.4-5.

loans. The subsidy is equivalent to the difference between a 6 per cent rate of interest and the current rate for a period of four years from completion of the relevant dwellings. The subsidy then falls gradually over a period of 13 years. The subsidies are agreed in relation to new building projects. An annual limit is placed on the number of dwellings to receive such aid. The 1979 limit was 7,000.

Interest costs are further reduced by direct government funding for new projects. This equals 17 per cent total required funds. This is interest free and is amortisation free for 50 years. These measures aim to both reduce rent levels and alter the pattern of rents. New non-profit building is subject to lower rents as a result of these measures but the rents rise gradually over time. The non-profit associations in Denmark set rents to cover costs minus subsidies. There are no specific rules regarding the incomes of tenants although individual associations may operate priority lists having regard to various criteria of need which they determine. The government seeks a satisfactory relationship between rents and incomes via the Boligsikring.

The French government have given subsidies to private builders under the Prêt Speciaux Immediates (P.S.I.) system. Rent ceilings are agreed as conditions of the grants and there are income rules governing tenant eligibility. However, with the gradual implementation of the Barre proposals (1975) which argued for a switching of emphasis from production to consumption subsidies related to household circumstances, the emphasis is now on Prêts Immobiliers Connventionnés (P.I.C.) which are subsidised loans at

lower levels with less severe rent and income rules. These are paid to private developers. Household costs are related to income via A.P.L. The H.L.M.[1] sector also receives subsidies in return for keeping rents below certain levels. These are precisely defined by government as rates per square metre, varying by region.

In Ireland central government provides subsidised loans to local authorities to cover 100 per cent of the capital costs of new building. One aim is a general reduction in rent levels. There are no income rules regarding eligibility for local authority accommodation but the system of 'differential rents' seeks to achieve a satisfactory relationship between rents and income levels.

Exchequer subsidies to local authority housing revenue accounts in the United Kingdom are intended to keep rent levels down but, in contrast to the non-profit arrangements in West Germany, the Netherlands and France, the subsidies are given without agreements to limit rents to particular levels. Local authorities are merely required to set rents that are 'reasonable' with respect to the interests of tenants and rate-payers. There are not, in contrast to the West German and Dutch systems, rules regarding maximum income levels for those occupying subsidised housing. In fact, as cost-related subsidies to public sector and housing association dwellings have not been directly related to household circumstances they have taken the form of 'general assistance'. The lack of more selective cost-related supply subsidies is a significant feature of housing policy in the U.K.

---

(1) Habitations à loyer modéré (Housing association accommodation, see Chapter Five)

## (i)(c) Rent Controls

Governments have attempted by various means to control or influence the rents charged by private landlords, non-profit housing associations, and local authorities. The term 'rent control' has been used to encompass a wide range of alternative means for achieving this end. A full discussion of these alternatives is part of the subject matter of Chapter Five. At this stage, it is useful to make a distinction between (a) regulation of rents as a condition of subsidy and (b) control by edict. Measures of type (a) exist in West Germany, the Netherlands and France. Sozialwohnungsbau rents are limited to rates per square metre prescribed by the Länder as a condition of subsidies under the 1FW and 2FW arrangements.

Landlords of Dutch 'premium rented dwellings' must charge d.c.p.r. as a condition of subsidy and recipients of the French P.S.I. have agreed maximum rent levels and the subsidised H.L.M's have to agree to state determined rents per square metre.

In addition to the above measures, various edicts or laws govern rents that may be charged for privately rented property. Some form of control exists for a proportion of the rented stock in each country. In West Germany initial contracts between landlord and tenant are not subject to control but subsequent rent increases must comply with various criteria and be justified either in terms of cost increases or evidence relating to comparable properties being let at higher rents.

In other countries controls tend to be concentrated on the older

stock and in the most densely populated areas. In the Netherlands, for example, controls are most severe in the Randstad area, where control is by a system of quality points agreed between landlords and tenants. In Denmark restrictions on private rents have been removed in those areas where the supply of housing is deemed to be 'plentiful' (No specific criteria; merely a central government decision case by case). In the larger towns controls take the form of 'economic rents' which permit landlords to obtain no more than a 'reasonable' return on investment.

In France the 'private rent controlled sector' in 1978 constituted 16 per cent of the total rented stock.(1) The control mechanisms are those of the 'Law of 1st September, 1948' which is still in force (with minor amendments). 'Base rents' are set either at 1948 levels or by a 'corrected surface area' formula. Base rents are then subject to periodic percentage increases determined at irregular intervals by central government. A gradual process of decontrol has been in progress since 1948. The most expensive property and that in the areas of least shortage has been decontrolled first.

In Ireland rent control is limited to those unfurnished dwellings built before 1941 whose rateable value is below a certain level. Controlled rents may not exceed the 'lawful rent', which equals the 'basic rent' plus 'lawful additions'. The 'basic rent' is the market rent at the time the individual dwelling was first subject to control (In many cases 1914).'Lawful additions' constitute allowances for expenditure on repair and improvements.

---

(1) According to one definition. For a detailed discussion see Chapter Five.

While a few U.K. rents were until 1980 subject to control under 1957 Rent Act provisions and had very low rents, a large proportion of the private rented stock is subject to rent regulation which requires fair rents based on the 'age, character, locality and state of repair of the dwelling' and they must give 'sufficient reward to the landlord to encourage rental'. Tenants who have not applied for regulation or who live in properties outside the rateable value limits or who are excluded by specific provisions have no rent regulation.

There are many complications to the systems of rent control in each country and no attempt has been made here to give the detailed provisions. The same basic question about the consequences of controls have been asked in each country: 'What are the effects on the quality and quantity of rented accommodation?' There is some evidence to suggest that the quality of the older stock has suffered as a result of controls but the evidence on total supply is less clear. New dwellings have in many cases been exempt from direct controls but output levels have still been lower than governments would like in some countries. The evidence will be examined in Chapter Five.

(i)(d) Other measures to reduce the annual housing costs of owner-occupiers.

For owner-occupiers, a reduction in housing costs might be achieved by a reduction in mortgage repayments. This can be achieved by making the effective cost of borrowing lower by allowing mortgage interest payments as an allowance against income tax. Mortgage interest tax relief (hereafter abbreviated to M.I.T.R.) exists in

the Netherlands, Denmark, France, Ireland, and the U.K. In the Netherlands all interest is allowable and there is no upper limit. There are similarly no upper limits relating to size of mortgage or income limits in Denmark.

In France, tax relief exists only for the first 10 years of a mortgage and then subject to limits of 5,000 francs[1] worth of interest per annum, plus 500 francs per annum for each dependent member of the household. In Ireland only £2,000 of loan interest is allowed and then only on dwellings below 117 square metres in area. Additional subsidies are given to those purchasing local authority dwellings. These take the form of direct contributions to mortgage repayments. The U.K. is unique (among the countries studied) in specifying a maximum size of mortgage allowable. In 1979 no more than £25,000 of borrowed money was subject to M.I.T.R. Also unique to the U.K. was the option mortgage system which gave a reduction in mortgage repayments approximately equal to tax relief for those on incomes which were too low to benefit fully from M.I.T.R.

West Germany does not allow M.I.T.R. but owner-occupiers receive a depreciation allowance under the '7b Eikommensteur' regulation of 1949. The tax allowance is equal to 5 per cent of the price of the dwelling for eight years. It applies only once in a lifetime per individual. There are no restrictions regarding income, but for a one family house the maximum price against which the allowance could apply in 1979 was DM150,000. The significance of the price and availability of credit as factors influencing the growth of owner-occupation will be examined, with the aid of empirical evidence,

---

(1) All figures in this paragraph relate to 1979.

in Chapter Seven.

The cost of funds from lending institutions may also be reduced by encouraging 'special circuits' which allow funds to be attracted and therefore re-rent at below market rates. As the instruments in this sub-section are all related to loan costs they receive further treatment in Section 4.4.

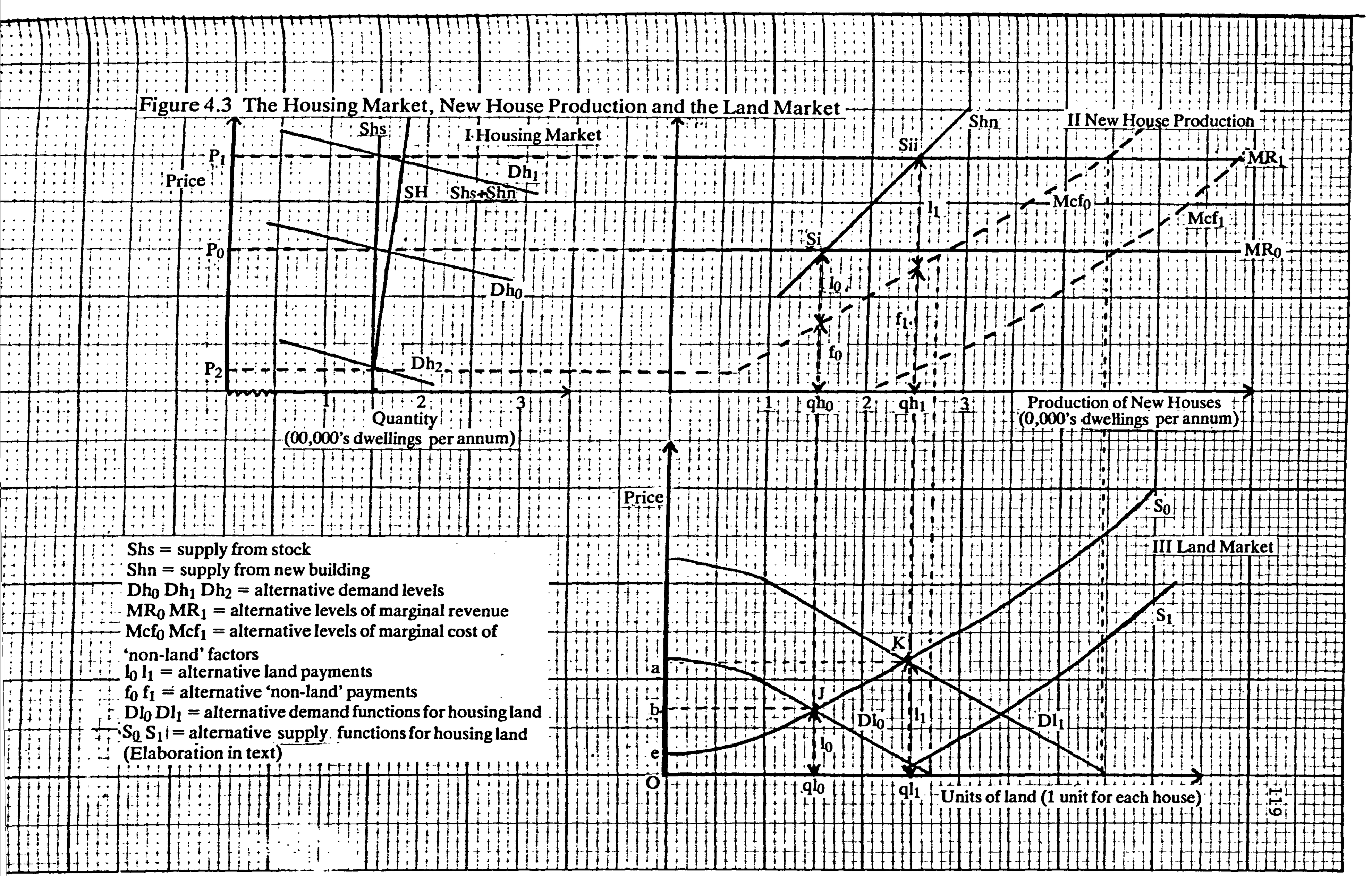
## 4.3 Policy instruments associated with the level of production

Increased production can be sought through the price mechanism by increasing profit levels. This might be done by raising demand, and thus prices, or reducing costs by, for example, low interest loans for builders. Alternatively, governments can use non-profit housing associations or public sector agencies and give them subsidies to build. Combinations of all these methods have been used.

A model of the determinants of housing production will facilitate analysis of the alternative means by which governments can increase output. An attempt will now be made to produce a model which examines the relationships between the market for existing houses, new house production and the land market. The model, which examines the flows of housing demand and supply is summarised in Figure 4.3.

The model examines the flows of housing demand and supply. It is assumed that supply comes from the existing stock and new production. The supply from the stock is perfectly inelastic with respect to price. Thus dwellings come onto the market because of decisions to change dwellings related to such factors as job moves or changes in family size but increases in price, per se, do not induce sales.

## Figure 4.3 The Housing Market, New House Production and the Land Market




Shs = supply from stock
Shn = supply from new building
$Dh_0$ $Dh_1$ $Dh_2$ = alternative demand levels
$MR_0$ $MR_1$ = alternative levels of marginal revenue
$Mcf_0$ $Mcf_1$ = alternative levels of marginal cost of 'non-land' factors
$l_0$ $l_1$ = alternative land payments
$f_0$ $f_1$ = alternative 'non-land' payments
$Dl_0$ $Dl_1$ = alternative demand functions for housing land
$S_0$ $S_1$ = alternative supply functions for housing land
(Elaboration in text)

The model can be viewed as relating simply to the owner-occupied market or in a wider context to all private hosing if the 'price' variable is interpreted as an imputed or explicit rent. In the explanation that follows, it is assumed that owner-occupied houses are under consideration. Consumers are assumed to be indifferent between old and new houses.

*Section I (Figure 4.3)*

An initial demand function $D\bar{h}_0$, gives a price of $P_0$

*Section II*

It is assumed that there is a competitive house building market such that all builders are price-takers, and attempt to maximise profits. The house-building industry is a price-taker because its contribution to annual supply is small compared with that coming from sales of existing houses. Expected marginal revenue (MR) is initially at level $MR_0$. $Mcf_0$ shows the expected marginal cost of factors other than land, and includes a normal profit element. It slopes upwards because of the additional factor prices associated with commiting an increasing volume of resources to house construction. The industry is assumed to bid for land in a residual fashion such that the maximum land bid is equal to the expected revenue from house sales minus the expected value of all other costs. Let the maximum land bid = 1. This is the bid price per unit of land necessary for each new housing unit.

Generally, $1 = MR - Mcf$.

Specifically at price $P_0$, $1 = MR_0 - Mcf_0$.

At output level $qH_0$, 1 has a value of $1_0$.

From this relationship the demand curve for land, shown in Section III, can be derived.

*Section III*

With house price $P_0$ and 'other factor cost' $Mcf_0$, the demand for land is shown as $Dl_0$. $S_0$ is the supply curve of land for housing development. It shows the flow of land available for housing development at different prices. The base level Oe can be taken to be the price of agricultural land. One unit of land is necessary for one house. At an equilibrium land price of Ob (or $l_0$). $ql_0$ units of land are traded.

*Section II, again (ii)*

The initial level of house production is $qH_0$ dwellings per annum with a payment to 'non-land factors' of $f_0$ and a payment to land of $l_0$ per dwelling.

*Section I, again (ii)*

Let demand increase to $Dh_1$ and price to $P_1$. The additional supply from new building is assumed to be too small to have a significant effect on price (In the very long run successive 'rounds' of extra supply from new building could add to the stock and shift the ' 'supply from the stock' curve, $Sh_s$, to the right and, without significant demand changes, this would affect price. The concern here is, however, with less than the very long run).

*Section II (iii)*

Expected marginal revenue increases to $MR_1$.

Now, $1 = MR_1 - Mcf_0$ .

*Section III, (ii)*

With house price level $P_1$ and 'other factor cost' $Mcf_0$ , the demand for land is $Dl_1$ .

The equilibrium price of land is now 0a (or $l_1$ )

*Section II (iv)*

The level of house production is now $qH_1$ dwellings per annum. The 'non-land payment is $f_1$ and the land payment is $l_1$.

Differing levels of MR will give different land demand curves in Section III and different levels of production in Section II.

House price level $P_0$ gives output $qH_0$
House price level $P_1$ gives output $qH_1$

Points such as si and sii may be joined to give the supply curve of new housing Shn.

*Section I (ii)*

The supply curve information from II can be transferred to I (Note the quantity scales are different in Sections I and II)

Shn is added to Shs to give SH.

SH is the supply curve of 'old' and 'new' housing. The quantity of new housing produced is not large enough to have any significant effect on house prices.(1) (At $Dh_2$ house prices are too low to encourage any dwelling production).

---

(1) The Flow/Stock relationship can be expressed as a percentage. This is generally less than 3 per cent per annum for all the countries in this study. The figures for 1976, for example. were:- Denmark 1.94 per cent; France 2.13 per cent; West Germany 1.64 per cent; Ireland 2.93 per cent; Netherlands 2.43 per cent; U.K. 1.62 per cent. (Calculated from U.N. data).

If a government expects output to be at $qH_0$ but wishes output to be at $qH_1$ it can attempt to achieve this goal by a variety of means. For example, demand may be encouraged, non-land factor prices may be subsidised, and land supply and prices might be influenced. The alternative approaches in the various countries will now be examined.

(ii)(a) Measures to increase the demand for owner-occupied housing : old and new.

Governments have subsidised the purchase of owner-occupied housing primarily to increase the proportion of the housing stock in the owner-occupied sector. Increased dwelling production has usually been a subsidiary aim. The basic requirement for output increases, assuming unaltered non-land factor costs, is an increase in builders' expected marginal revenue, say, from $MR_0$ to $MR_1$ (Figure 4.3). A shift from $Dh_0$ to $Dh_1$ as well as raising output does, however, have two significant 'economic-rent' effects:-

(1) Existing house owners benefit from an increase in land values. At a level of production $qH_0$, $ql_0$ units of land are traded.

(2) Land owners receive an amount equal to the area b J $ql_0$ O of which area b J e is economic-rent. With house production at $qH_1$, land owners obtain an amount equal to the area a K $ql_1$ O of which area a K e is economic-rent. The increase in economic-rent as a result of the shift in housing demand is thus equal to the area a K J b.

These increases in economic-rent constitute redistributions of wealth from those financing the demand subsidy to existing house and land owners. It is possible to recoup at least some of the

surplus by taxation measures such as a tax on capital gains for house owners or a tax on the development of land. Many examples of such measures can be found in western Europe but capital gains tax for owner-occupiers is notably absent in the U.K. The taxation measures with respect to owner-occupiers in the different countries will be examined in Chapter Seven.

The extent to which a shift from $Dh_0$ to $Dh_1$ brings about increased building will depend on what proportion of the additional demand can be met from new production rather than from the stock. This will be influenced by the elasticity of supply of new housing. As can be deduced from Figure 4.3, the elasticity of Shn is dependent on:-

(1) The slope of $Mcf_0$ and

(2) The slope of $S_0$.

Thus, the lower are the proportional increases in non-land factor costs for a given output increase, and the greater are the quantity increasing consequences of an increase in housing demand, the lower are the economic-rent consequences in the land market.

Governments have attempted to increase the demand for owner-occupied housing by reducing the cost of credit to house purchasers. This has been a major form of demand subsidy in all the countries except West Germany. The efficiency of M.I.T.R. as a means of increasing output has, however, been closely questioned in relation to the evidence. In a United Nations study which included all six of the countries in this investigation D. Jaffe[1] argued that mortgage

---

(1) Jaffe, D. (1973), 'The Relationship of Financing to Housing Production in Europe and the United States';in 'Financing of Housing', Proceedings of a seminar in Geneva, August 1973, U.N.E.C.E. pp. 185-209.

subsidies may result simply in an increase in the ratio of mortgage loans to the housing stock without any significant increments to this stock and the efficiency of mortgage subsidy systems measured by their effects on output is low. Jaffe argued that there was little stimulus to demand from M.I.T.R. and thus little incentive for new building. Subsidised mortgage loans are a desirable mode for households to finance themselves but, as long as the funds are fungible, there is a possibility that the funds will not be used for housing. They may be used to replace non-subsidised loans or decrease the equity proportion of housing investment. Lansley(1) has argued that M.I.T.R. in the U.K. promotes the transfer of households from one house to another and encourages non-housing consumption but it has very little affect on new construction. Even if M.I.T.R. does increase the demand for housing, the analysis associated with Figure 4.3 suggests that a demand shift will have significant price and economic-rent effects.

(ii)(b) Measures to increase the demand for *new* owner-occupied housing.

Rather than allowing price effects in the stock to be transmitted to the new building market, as postulated in Figure 4.3, a more direct approach may be adopted. This is to stimulate the demand for new housing directly. This will avoid the economic-rent consequences for existing house owners if an increased demand for new houses does not result in higher new prices which are transmitted to the stock. The analysis associated with Figure 4.3 suggests that such effects do not occur; principally because the

(1) Lansley, S. (1979), 'Housing and Public Policy', London, Croom Helm.pp.133-134.

market is dominated by supply from the existing stock and transmission effects are from this source of supply to new housing.

The Netherlands and Ireland provide examples of attempts to stimulate new house demand.

In 1979 the Dutch government introduced new measures to stimulate the production of owner-occupied dwellings. A statement from the Secretary of State for Housing and Town and Country Planning in April 1979 stated that ".....the production of dwellings for owner-occupation has lagged behind the planning figures for the past few years and ..... I find the numbers of dwellings built for people of moderate means lower than is desirable".(1) New regulations were, therefore, set out to encourage the demand, and consequently production of, new 'premium' homes for owner-occupiers. Two schemes exist. One for 'Category A' dwellings, the other for 'Category B' dwellings. An outline of each is given below. (All figures relate to 1979).

*Category A dwellings*

Maximum cost DFl 130,000 in North Holland, South Holland and Utrecht, DFl 120,000 elsewhere. A grant is paid for 10 years and varies with income. The maximum first year contribution is DFl 68,400 at a taxable income of DFl 20,000 or less and is reduced by DFl 1,100 for each DFl 1,200 by which income exceeds DFl 20,000. The contribution is lowest at an income level of DFl 30,000. These amounts can be adjusted in subsequent years in line with a recipient's income.

The terms of the grants contain provisions which require that

---

(1) See, Building Societies Association (1979A), op.cit., pp. 149-153.

upon sale of the house a proportion of the proceeds accrue to the municipality which has issued the grant. The muncipality also fixes the land prices for these dwellings and requires prescribed building standards to be met.

*Category B dwellings*

Maximum cost DFl 160,000 in North Holland, South Holland and Utrecht. DFl 150,000 elsewhere. Maximum taxable income of eligible persons DFl 50,000. First year grant DFl 3,000 less a percentage of the amount of which the cost of the dwelling exceeds DFl 130,000 or DFl 120,000 respectively. At a price of DFl 160,000 (North Holland, South Holland and Utrecht) or DFl 150,000 (Elsewhere) the grant is lowest, being DFl 1,600. Again, adjustments occur with changes in income in subsequent years.

In Ireland, £1,000 grants have been payable to first-time purchasers of new houses. This is intended to help with the deposit. Similar help is not afforded to first-time purchasers of second-hand housing. As with the Dutch scheme, the aim is to maximise the quantity increasing effects of a demand subsidy. Although one may call the aid a demand subsidy, receipt depends on production. Both the Dutch and Irish schemes attempt to increase the output of new housing by subsidising a particular category of potential purchaser (those below a given income level in one case, first time buyers in the other). The effectiveness of each scheme in raising output levels depends on a number of factors that are apparent from an examination of Figure 4.4 in which it is assumed that there is a competitive market subject in the provision of government subsidies.

In Figure 4.4 SS = supply curve of new housing.
Two classes of consumer are assumed:-

(1) Existing house owners

Moves from the stock do not take place in response to price changes per se (in line with the analysis for Figure 4.3) but, given the desire to move, some households will be potential purchasers of a new house.

De = demand for new houses from existing owners.

(2) Consumers who are eligible for special treatment.

First time purchasers or low-income earners. The term 'special purchasers' will be used for these.

Dsp = demand for new houses from special purchasers without subsidy.

$DA_1$ = The market demand without subsidy.

$P_e$ = Original equilibrium price.

$Q_e$ = Original quantity of new houses expected to be built (per given time period).

$Dsp_s$ = Demand for new houses from special purchasers after receipt of subsidy.

$DA_2$ = Market demand after subsidisation of special purchasers.

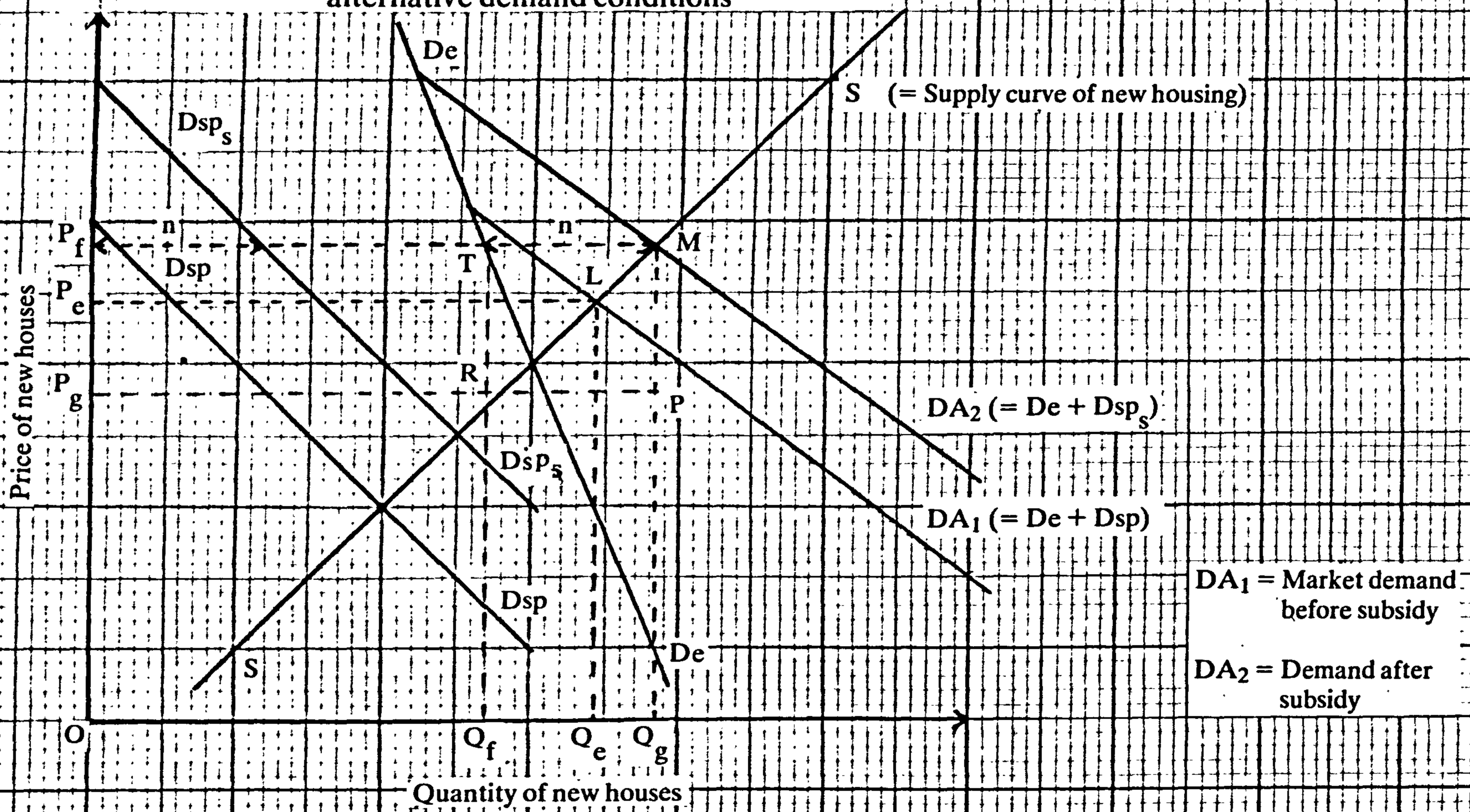
$P_f$ = New equilibrium price.

$Q_g$ = New equilibrium quantity.

The subsidies increase production from $Q_e$ to $Q_g$. $Q_f$ previous house owners pay $P_f$ for a new house.

Special purchasers, equal in number to $Q_g$ minus $Q_f$, (= 'n' in Figure 4.4) pay $P_f$ for a new house but obtain $P_f$ minus $P_g$ as a subsidy.

**Figure 4.4 Demand and Supply of new houses under alternative demand conditions**




De = Demand for new houses, from existing owners
Dsp = Demand for new houses from first time buyers (or other 'special purchasers')
Dsp$_s$ = Demand for new houses from first time buyers (or other 'special purchasers) after receipt of subsidy

Total revenue to builders is equal to the area $P_f$ M $Q_g$ 0 of which the total subsidy is equal to the area T M P R.

All special purchasers receive a subsidy. Some would have purchased without a subsidy ($Q_e$ minus $Q_f$).

The extent to which the subsidy increases output depends on:-

(1) The number of 'special purchasers'.

(e.g. if potential first-time buyers of new houses are very small relative to the number of other purchasers of new houses such subsidy schemes will have less effect than if the number is relatively large)

(In terms of Figure 4.4 the nearer is $DA_1$ to De the lower is the impact of such schemes).

(2) The size of the subsidy.

(The extent of the shift from Dsp to $Dsp_s$ and thus the extent of the shift from $DA_1$ to $DA_2$).

(3) The elasticity of supply.

The more inelastic is supply the greater will be the price effects and the lower the quantity effects. Supply elasticity is a function of changes in non-land factor costs and the elasticity of supply of land (see sub-section (ii)(a) above.)

The more inelastic is supply the greater are the economic-rent consequences for existing land owners. This point is recognised in the Dutch case where controls on land prices are linked to the operation of the subsidy scheme.

(4) The elasticity of demand for new houses.

As with any demand elasticity, a principal determinent is the

price and availability of substitutes. Significant variations in the availability of 'second-hand housing' may influence the elasticity of demand for new housing. Measures to increase the demand for owner-occupied housing may have a more significant effect on the demand and production of new houses in West Germany than in the U.K. because of the relatively smaller market in 'second-hand' houses in West Germany. It has been suggested in conversations at the West German Federal Ministry for Regional Planning, Building and Urban Development (May 1980) that measures to increase owner-occupier demand have more significant effects on output of new production in West Germany than in the U.K. because of differences in the price structure and rate of turnover in the stock. In West Germany a lower rate of turnover in the stock (Average length of stay West Germany 20 years, U.K. 7 years) and lack of small old cheap houses (compared with U.K.) means that a higher proportion of first-time buyers purchase new houses.

(ii)(c) Measures to reduce construction costs in the private sector.

Consider Figure 4.3. Output can be raised from $qH_0$ to $qH_1$ by shifting $Mcf_0$ to $Mcf_1$. This reduction in non-land factor costs can be achieved by direct grants or tax concessions to builders. The method most commonly adopted in practice is to lower builders' borrowing costs by providing them with low interest loans or, in the Dutch case, by government also underwriting loans with guarantees which reduce the risk to commercial lenders and allow a lower rate of interest to be charged. The dwellings to be built

with such subsidies must, under arrangements in force in West Germany, the Netherlands, and France, conform with given standards and fall within prescribed cost limits. The subsidies are available for rented and owner-occupied housing. In the case of rented housing, the aid is given, in each case, subject to prescribed rent levels being charged by the subsequent landlords. In the West German and Dutch schemes there are upper income limits for the occupants of the dwellings.

An examination of Figure 4.3 reveals that a consequence of subsidising builders' costs is an upward shift of the demand curve for building land. A move from $Mcf_0$ to $Mcf_1$ brings about a move from $Dl_0$ to $Dl_1$. The land demand is determined residually, the maximum bid for land at any output level being the difference between expected marginal revenue and non-land factor costs. A consequence of such subsidies is thus an increase in land-owners' economic-rents. Economic-rent increases from b J e, at an output level of $ql_0$, to a K e at output level $ql_1$.

There is no price-reducing effect from the subsidy. New house prices are determined in a market dominated by supply from the existing stock and builders are price takers. In their attempt to maximise profits, builders, thus, increase output. In Figure 4.3 house prices are at $P_0$ before and after subsidy but output has increase by $qH_1$ minus $qH_0$.

If some inelasticity of demand for new housing is allowed then the extent to which subsidies to builders' costs increase output is reduced the more inelastic is the demand for new housing.

In the countries studied, only a proportion of construction cost subsidies go the the owner-occupied sector. The greater part of aid has been for dwellings to rent, and aid has been tied to rent-restriction agreements.

In Figure 4.5,

SS = Market supply of new rented dwellings to rent (supply of new buildings to landlords)

$D_0D_0$ = Demand by landlords for new dwellings which they will rent.

Assume that this demand reflects, for the landlord's time horizon, the capitalised value of expected rents minus costs. The cost figure includes an opportunity cost element so that the landlord, as an investor, will have a lower demand if higher returns are available outside of the housing market.

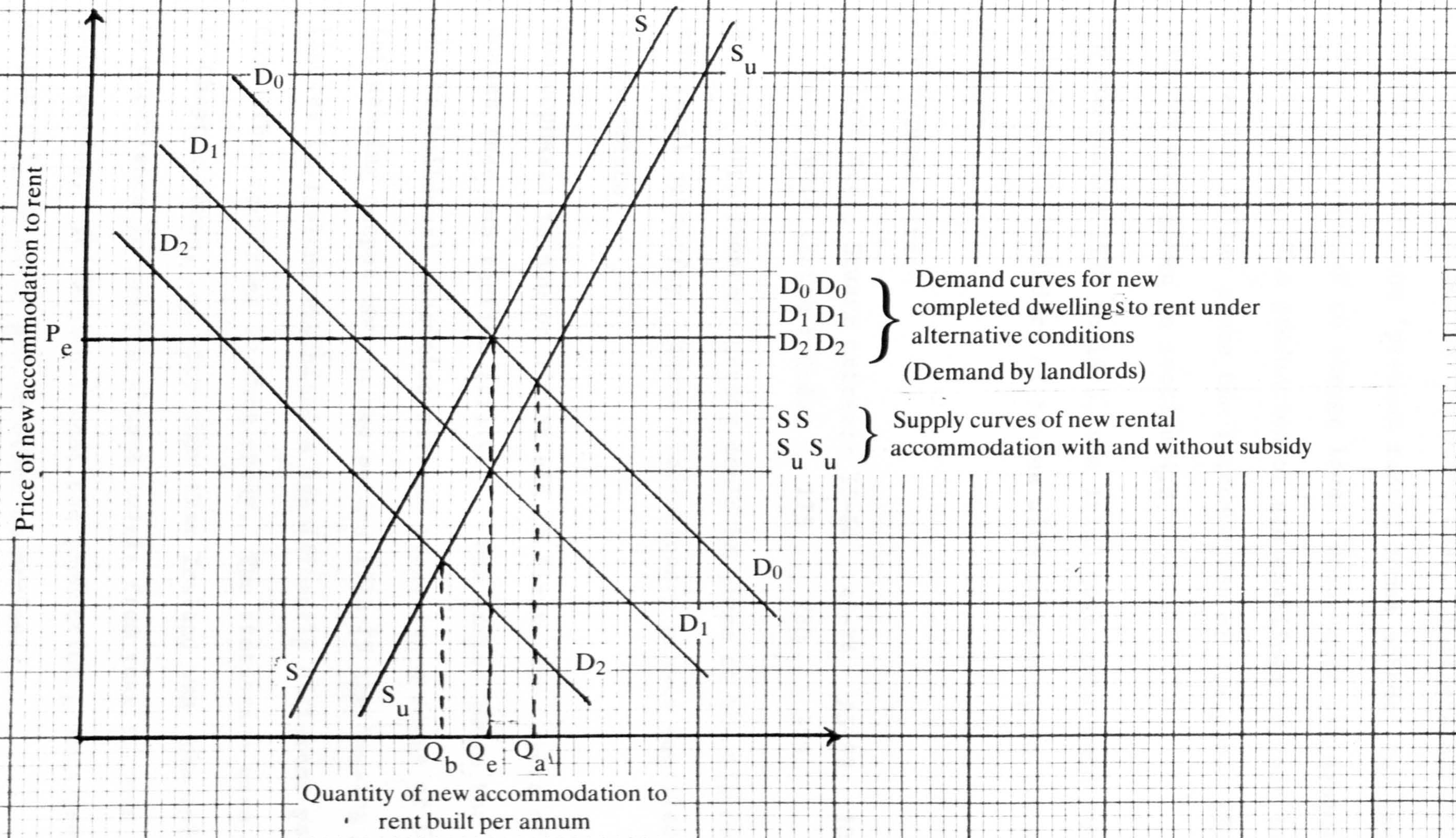
With Landlords charging market rents, and no subsidies being available to the private rented sector, the quantity of new building is $Q_e$ units per annum.

$S_uS_u$ = Supply curve after builders receive a subsidy.

Without any restriction on rents, equilibrium output will increase to $Q_a$.

The effect of rent restrictions is to shift the demand curve downwards to the left. The more severe the restrictions, the greater the shift. With demand at $D_1D_1$ output is the same as it was originally. If demand falls to $D_2D_2$, as a result of rent restrictions, output is lower after the subsidy than it was before. This

Figure 4.5 Demand and Supply of new accommodation to be rented




$D_0$ $D_0$
$D_1$ $D_1$
$D_2$ $D_2$
} Demand curves for new completed dwellings to rent under alternative conditions
(Demand by landlords)

S S
$S_u$ $S_u$
} Supply curves of new rental accommodation with and without subsidy

is what has happened in the Dutch case. Builders have received subsidies under the 'premium rented homes scheme' but landlords have been required to charge lower rents under the dynamic cost price system. The production of new dwellings to rent in this sector has fallen since the introduction of d.c.p.r. (The figures were given in section 4.2).

In the period 1970 to 1975, the Irish government paid lump sum grants to the builders of houses with an area up to 116 square metres.

The figures were:-

| Floor Area, Square metres:- | 35-44 | 45-74 | 75-99 | 100-116 (1) |
|---|---|---|---|---|
| Grant paid (Irish Pounds) | 175 | 250 | 325 | 300 |

Further supplementary grants could be given at the discretion of the local authority. These discretionary grants equalled the state grants.

The emphasis is now on direct aid to first time buyers of new houses (see sub section (ii)(b)). One cannot judge the effects of the builders' subsidies without isolating a range of factors influencing output but in the period 1970-75 the housing production figures in Ireland exhibited a significantly different pattern from other countries in this study. The statistics were presented in Chapter Three, and they show that Ireland was the only country to experience increasing output levels from year to year throughout this period. It is likely that the production grants prevented output falling as it did in other countries.

---

(1) National Economic and Social Council, Dublin (1976), 'Report on Housing Subsidies', p.41, Table 5.

An examination of Figure 4.3 reveals another method by which new building may be encouraged. This would be by shifting the supply curve of housing land to the right ; e.g. from $S_0$ to $S_1$. With marginal revenue at $MR_0$ and non-land factor costs at $Mcf_0$ a land demand curve $Dl_0$ intersects $S_1$ at a land supply of $ql_1$ units, facilitating production of $qH_1$ units of new housing.

If the Community Land Act had remained on the statute book in the U.K., and its operation had been facilitated by the provision of the requisite funds from the Exchequer to local authorities, its operation could have had the required effect of making land available to builders at lower prices. Local authorities would have had the power to buy land and re-sell or lease it at preferential rates for required uses. The authorities might have sold above purchase price but could still have resold at below full market price for land with residential planning permission.

This would not have been dissimilar to the current arrangements in the Netherlands where the land market is closely controlled. Local authorities seek to acquire all land in their area suitable for development. They buy at undeveloped use price and sell at market price (or any other price they may determine). They are free to favour particular developers or types of development. They may dispose on a leasehold basis if they wish.

All those subsidy measures, discussed in this section, which either increase the demand for new housing or reduce building costs, can result in an increase in the demand for land and an increase in landowners' economic-rents, as demonstrated with respect to Figure 4.3. If these redistributive effects are to be avoided, governments

have to intervene in the land market by controlling prices or instituting a tax on economic-rents which will not (by definition) reduce the supply of building land. Land taxation measures may partially finance the demand or cost subsidies. This is a situation in which governments recognise the economic-rent consequences in the land market but attempt some 'claw-back' by land taxation.

The distinctive aspects of U.K. policy can be summarised by referring again to Figure 4.3. There has been a lack of measures either to reduce private sector production costs (shift $Mcf_0$ or to influence the supply source of housing land ($S_{h_0}$). The United kingdom has relied on measures to shift demand ($Dh_0$) In contrast, other countries have adopted policies which have had more direct consequences in Sections II and III of Figure 4.3.

(ii)(d) Measures to reduce the construction costs of non-profit making housing associations or municipalities.

Consider Figure 4.3. Governments could allow market forces to supply $qH_0$ units of new housing per annum, and attempt to encourage the additional required output ($qH_1$ minus $qH_0$) to be built in the non-profit or 'public' sector. In West Germany, the Netherlands, Denmark and France non-profit housing associations receive substantial subsidies which allow them to build dwellings. Housing associations make relatively smaller contributions to output in the United Kingdom and Ireland. Comparative statistics are presented in Chapter 5 (Tables 5.5 to 5.10). The builder may be a non-profit firm; possibly part of the same organisation which

eventually rents the property. Alternatively the non-profit developer (and eventual landlord) may employ a private sector builder to undertake some or all of the construction work.

The grants are directly related to new production. They are agreed on a per-project basis. In each of the four countires the major subsidy element is a contribution towards interest costs. In addition, these organisations typically receive tax concessions which apply only to non-profit developers. The West German associations are, for example, exempt under the Gemeinnutzige Wohnungsbaugesellschaften arrangements, from corporate income tax, 'trading-tax', and the property tax. In West Germany, the Netherlands and France the associations agree to set rents according to formulae agreed with the goverrment. A maximum number of dwellings per annum which may receive subsidies is usually determined by central or local government. This limits the budgetary cost of these procedures.

Housing associations play a less significant role in building new houses in the U.K. and Ireland than in the other countries studied, but the municipalities play a much larger part. Tables 5.5 to 5.10 show that in 1978, for example, less than 3 per cent of dwellings completed in Denmark, France, West Germany, and the Netherlands were built by central and local goverrment combined but in Ireland the 'State and local authorities' built 23.9 per cent of new dwellings and in the U.K. local authorities and new town corporations built 38.6 per cent of dwellings. (Again the figures refer to 1978). Central government helps finance this local authority construction by Exchequer subsidies. The volume

of council house building is closely tied to the degree of central government assistance but aid is not linked to specific projects and limited to a specified number of dwellings per annum as is the case in West Germany and the Netherlands.

(ii)(e) Measures to encourage the improvement of housing.

As the discussion of Chapters Two and Three indicated, the supply of housing services can be encouraged by improvement as well as new building. All the countries studied offer subsidies to reduce the cost to private owners and non-profit associations of improvement work.

The subsidy typically takes the form of a lump sum grant covering a percentage of cost: e.g. 43 per cent of cost in the principal West German modernisation scheme, 35 per cent in the Netherlands and Denmark; and 20 per cent in France. As an alternative, grants may be paid as annual sums for a given period. Indirect assistance is usually provided in the form of tax concessions. A depreciation allowance at the rate of 10 per cent per annum is available to anyone who carries out improvement work under the terms of the West German Steurbegunstingung (or tax benefits for modernisation) programme, which was introduced in 1977.

There are usually restrictions regarding the properties that are eligible for improvement aid. Location is a major factor. The bulk of funds in each of the countries studied is allocated to modernisation zones typically defined by municipalities according to central government guidelines. Under the West German scheme, landlords receiving modernisation grants must limit rent increases to 11 per cent of the rehabilitation costs or keep rents to a level similar to

that for comparable 'social housing'. Owner-occupiers only receive grants if their income is below the income limits for social housing (IFW). In the Netherlands there is an annual budget constraint on modernisation funds. Once the money has run out there are no more grants that year.

The major agency for improvement in France is the Agence National de l'Amélioration de l'habitation (A.N.A.H.) which was created in 1971. It is unique in its approach. It imposes a 3.5 per cent tax on the rental incomes from privately rented Pre-1948 property. This is the major part of the rent controlled stock and constitutes that part of the housing stock which is physically in the poorest condition. The funds collected are recycled to landlords in this sector in the form of grants that cover between 30 per cent and 60 per cent of the costs of improvement.

The Dutch reinforce their 'Object' susbidies for improvement with 'Subject' subsidies which take the form of additional rent allowances. 'Rent adjustment grants' are paid for three years to help lower-income tenants pay the additional rent after improvement. Refurnishing subsidies (for new wallpaper, floor covering, curtains etc.) are paid as lump sums of between DFl. 3,000 and DFl 3,500. These subsidies are given only when improvement work costing at least DFl. 10,000 has been undertaken and rents have risen by at least DFl. 25 per month (1979 figures).

An examination of modernisation subsidies raises a number of issues which are relevant to the discussion in Chapter Two of the boundaries of housing policy. Substantial sums of money are

transferred from central to local government to help work typically defined as 'environmental improvements' which, on inspection, appear to be largely for improvements to roads, parks and community facilities in particular neighbourhoods which have large amounts of low-quality housing. In the West German and Dutch cases (at least) these sums are included in the housing budget, but only to a limited extent can they be regarded as housing subsidies. The West German, Dutch, and Danish governments have recently introduced extensive schemes to encourage private owners to improve the insulation of their properties. The costs are, again, attributed to the housing budget and discussion in government literature usually classifies these measures as housing subsidies. However, they may be more associated with 'non-housing' than with housing aims. The Danish government, referring to an additional DKr 1,500 m. allocated to insulation grants for the period 1978-80, states in a submission to U.N.E.C.E. that this is "In order to help alleviate the nation's energy problem, the unemployment situation and the balance of payments".(1) There is no mention of improving housing standards.

Improvement policies became increasingly important in West Germany, the Netherlands, Denmark, and France in the 1970s. These countries did not have significant improvement grants before this decade. The principal West German and Dutch schemes were introduced in 1974. In France, the improvement grants scheme was substantially extended following the Nora Report of 1975. There has been very little assessment of the impact of these schemes and no thorough

---

(1) Ministry of Housing and Ministry of the Environment, Copenhagen (1979), 'Current rends and policies in the field of housing, building and planning', p.13.

study of what volume of modernisation would have taken place without subsidies.

## 4.4 Policy Instruments associated with capital market shortages and high interest rates.

Governments may try to increase the supply of funds or reduce the cost of credit to housing consumers and/or producers.

### (iii)(a) Measures to reduce the cost of credit to housing consumers.

There are a variety of ways in which governments can reduce the cost of credit to owner-occupiers engaged in house purchase. The principal method employed in the U.K., and in effect in varying degrees in the other countries of this study, (with the exception of West Germany) is mortgage interest tax relief. (M.I.T.R.)

The various measures can be examined by using the analysis associated with Figure 4.6, Figure 4.7 similarly similarly shows demand and supply curves for housing loans.

Market forces given an interest rate of $i_0$. M.I.T.R. shifts the demand for credit from $D_0D_0$ to $D_1D_1$. Financial institutions now supply OV units of credit and charge an interest rate of $i_1$. The effective cost to borrowers is $i_2$. The interest subsidy is $i_1$ minus $i_2$ per unit of credit.

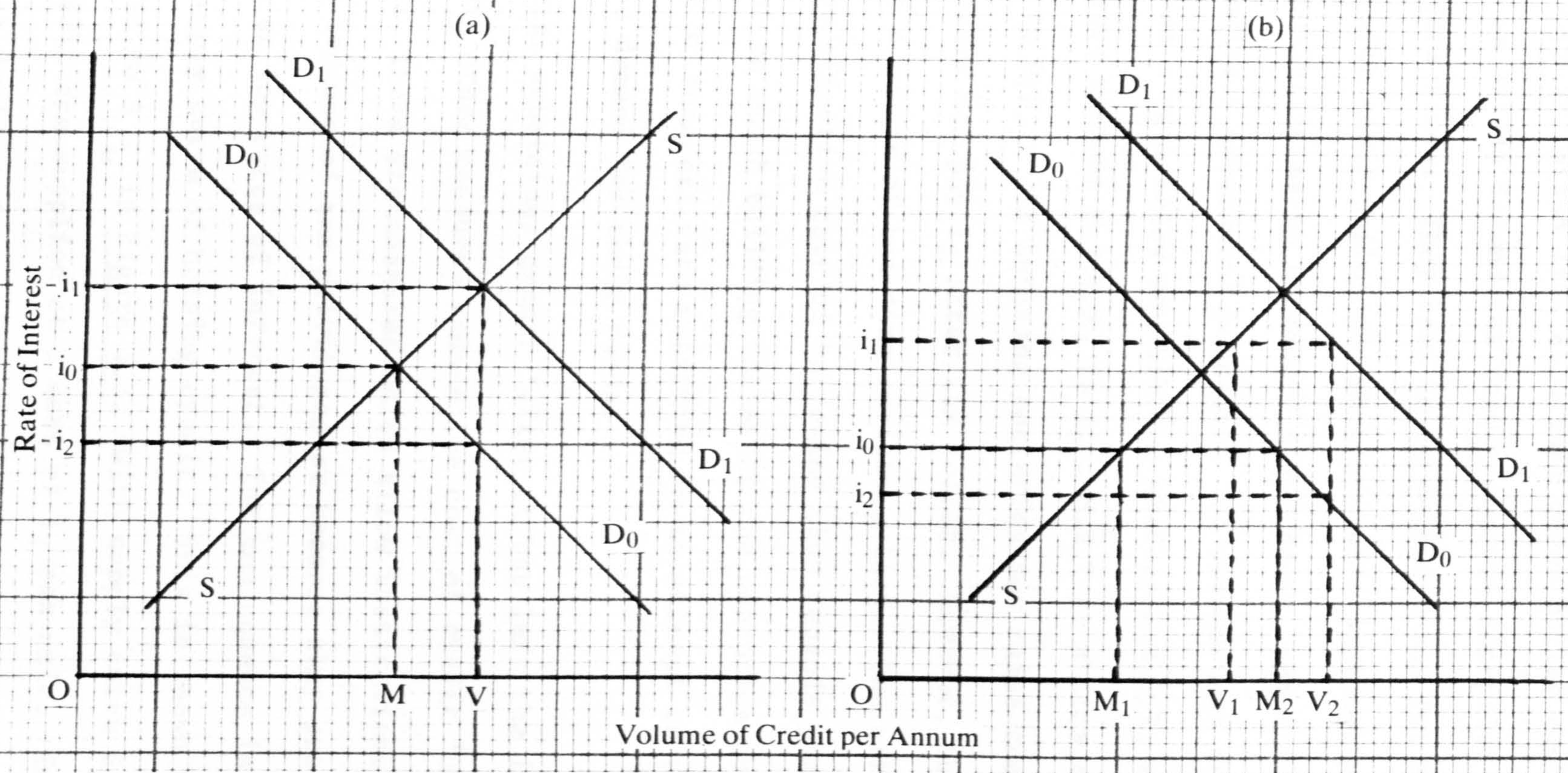
The success of M.I.T.R. in lowering effective rates of interest depends on:-

(1) The elasticity of demand for housing credit.

(2) The extent of the demand shift caused by the payment of M.I.T.R.

(3) The elasticity of the supply of credit.

Figure 4.6 M.I.T.R. and the demand and supply of credit




$D_0$ $D_0$ = Demand without M.I.T.R.
$D_1$ $D_1$ = Demand with M.I.T.R.
In case (a) Lending institutions fix rates at market equilibrium
In case (b) Lending institutions fix rates below market equilibrium

Figure 4.6a may not be entirely realistic in the case of the U.K. The position may be more like that in Figure 4.6b where building societies lend at a rate below market equilibrium. They face an excess demand for credit and use non-price rationing to allocate funds. They lend below market rates for reasons associated with their philosophy as non-profit institutions, with responsibilities to borrowers and lenders, and sometimes because of indirect government pressure. If one assumes that they would lend at a rate below equilibrium whether M.I.T.R. existed or not, the rate without M.I.T.R. is $i_0$ . M.I.T.R. shifts demand from $D_0D_0$ to $D_1D_1$ . If building societies now raise their rate to $i_1$, borrowers now pay $i_2$ after tax relief. However, the position of $i_1$ is a matter of building society policy. The effect of M.I.T.R. on the effective rate of borrowing thus depends partly on the extent to which building societies use non-price as opposed to price or interest rate rationing in an attempt to reduce the excess demand for their funds.

M.I.T.R. subsidises credit 'after it has left the institution'. Certain other measures reduce the cost of credit '*at* the institution'. These are measures which allow institutions to lend at lower rates because of tax privileges or because they are able to attract funds at low rates of interest. The consequence is a shift in the supply curve of housing credit. This is shown by the move from SS to $S_uS_u$ in Figure 4.7. With supply curve $S_uS_u$, OV units of credit are supplied at a cost of $i_1$ per unit. Institutions can collect funds at low rates of interest under a 'closed' or (to use

the terminology of J. Revell[1] and the B.S.A.[2]) 'contract' system of mortgage finance. Under a contract system potential owner-occupiers save for an agreed period after which they receive a loan. During the saving period they obtain low rates of interest but at the end of the contract period (which may be two or three years) they receive a government savings bonus plus a loan. An extension of the system allows savers who are not potential house buyers to receive a savings bonus. Such systems allow a large volume of funds to be lent at low rates of interest. The principal examples of contract mortgage systems in Europe are the Bausparkassen System in West Germany (which borrowed at 2.5 per cent and lent at 5 per cent in 1978) and the Épargne-logement scheme in France (which borrowed at 3.25 per cent and lent at 4.75 per cent in 1978). These two schemes are particular forms of 'special circuits'. The savings bonus schemes for potential first time buyers in the U.K. do not constitute a contract system as mortgages can be obtained without a minimum savings period.

In France, the épargne-logement was part of a wider series of structural changes in the finance markets which the government brought about in 1966. This included the establishment of a secondary market in mortgages supervised by the Crédit Foncier. This facilitated transfer of funds between borrowing and lending institutions and encouraged the development of longer term lending.

According to the Banque de France, before 1966 ....."

---

(1) Revell, J. (1975) in 'Housing Finance: Present Problems'. Paris, O.E.C.D., pp.33-41.

(2) Building Societies Association (1979B), B.S.A. Bulletin Number 20, October, p.15.

"All that prospective home owners could obtain by way of finance from the banks and specialised financial institutions would be loans granted for a termnot exceeding 10 years as a rule, and at a rate of interest which, in practice, often reached as high as 14 to 15 per cent per annum". However, "the setting up of the mortgage market in September 1966 resulted in a rapid expansion in long term housing loans and an appreciable fall in rates of interest charged". (1)

The cost of credit can be subsidised by the state making a direct contribution to mortgage repayments as part of a general housing allowance scheme. The state contribution varies with income level. Two examples of this occur in the countries studied: (a) The West German Wohngeld; (b) The French A.P.L. The Dutch and Danish housing allowance schemes apply only to tenants.

A further possibility is to reduce interest costs for a particular class of purchaser irrespective of special conditions governing income level. This occurs in the Irish 'Low Rise Mortgage Scheme'.

Ex-council tenants who are buying a house can obtain low cost mortgages. The contributions are for the first ten years of the mortgage. A sum of £234 is paid in the first year.(2) This diminishes by £26 in each succeeding year. These are the amounts paid by central government. Local authorities can, at their discretion, match these amounts.

---

(1) Banque de France (1971), 'Information Note Number 3', October, translated in 'Housing Finance: Present Problems'; Paris O.E.C.D., 1974, p.50.

(2) 1979 Figures.

(iii)(b) Measures to reduce the cost of credit to housing suppliers.

Housing suppliers borrow in order to construct, purchase or maintain property. These suppliers may be builders, erecting private houses for sale, or organisations that rent housing. Private builders can obtain low interest loans from the state in West Germany and France. In return they have to keep to prescribed cost and price limits.

The principal form of credit subsidy to housing suppliers is, however, received by non-profit associations renting housing (in West Germany, the Netherlands, Denmark, and France) and by local authorities (in the U.K. and Ireland). Loans are provided to West German non-profit organisations at a maximum rate of interest of 4 per cent per annum. Danish non-profit associations receive 23 per cent of their loan capital from government interest free; the remainder of borrowed funds attract the Rentesikring or interest subsidy discussed in Section 4.2.

The Dutch government provides loans at below market interest rates to non-profit associations to meet 100 per cent of the costs of building 'Housing Act Dwellings'. This form of social housing comprised 30 per cent of total housing production in 1979. In France H.L.M. organisations obtain government subsidised loans from the state controlled 'Caisse de Prets aux organisms of H.L.M'. for periods of 20 to 30 years at rates of interest which were, in 1978, between 6 per cent and 7 per cent. All the borrowing for council housing in Ireland is done by central government and all loan charges not met by rental income are funded by central

Figure 4.7 A 'Closed' System of Housing Finance and the Demand and Supply of Credit

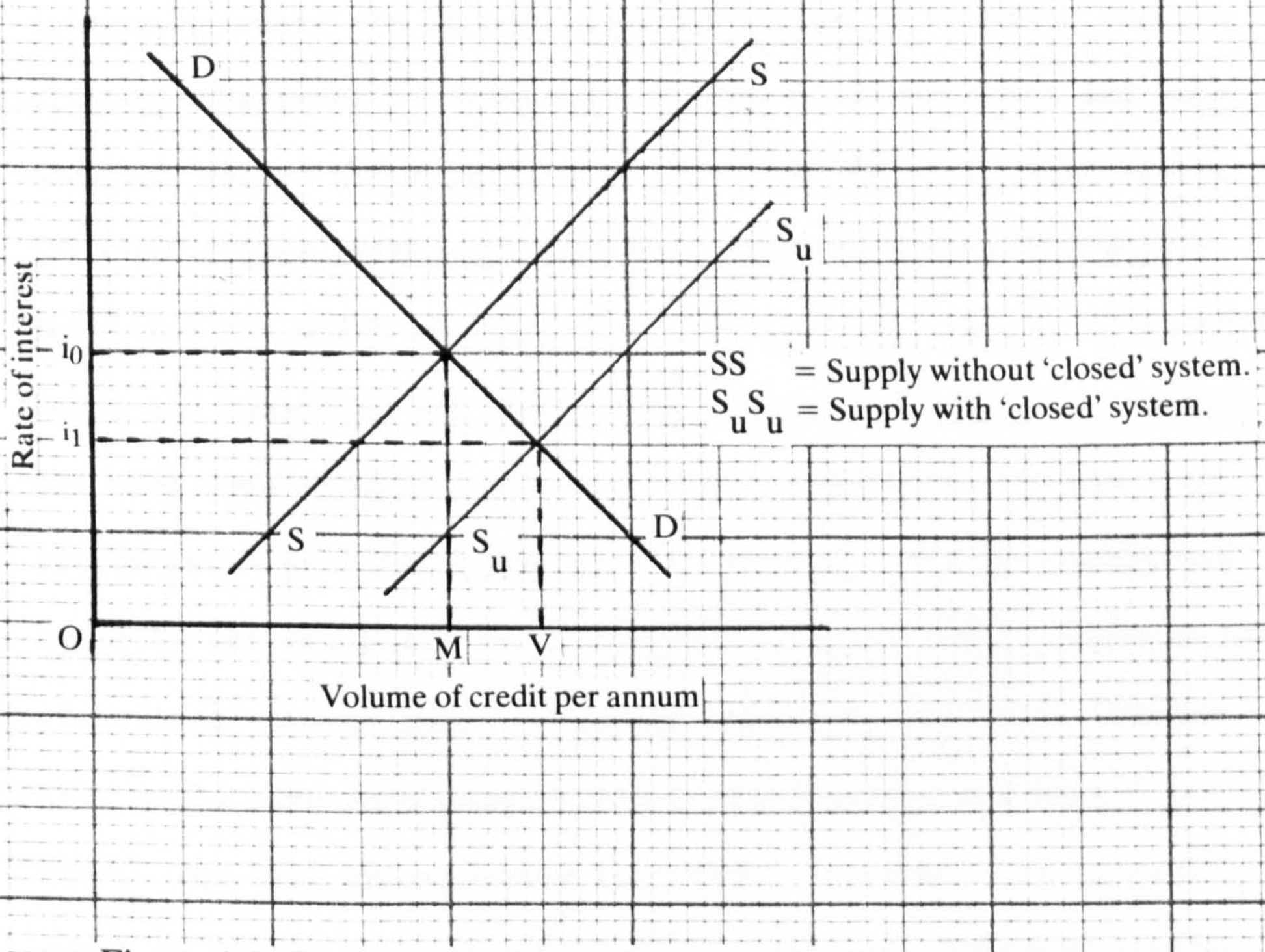
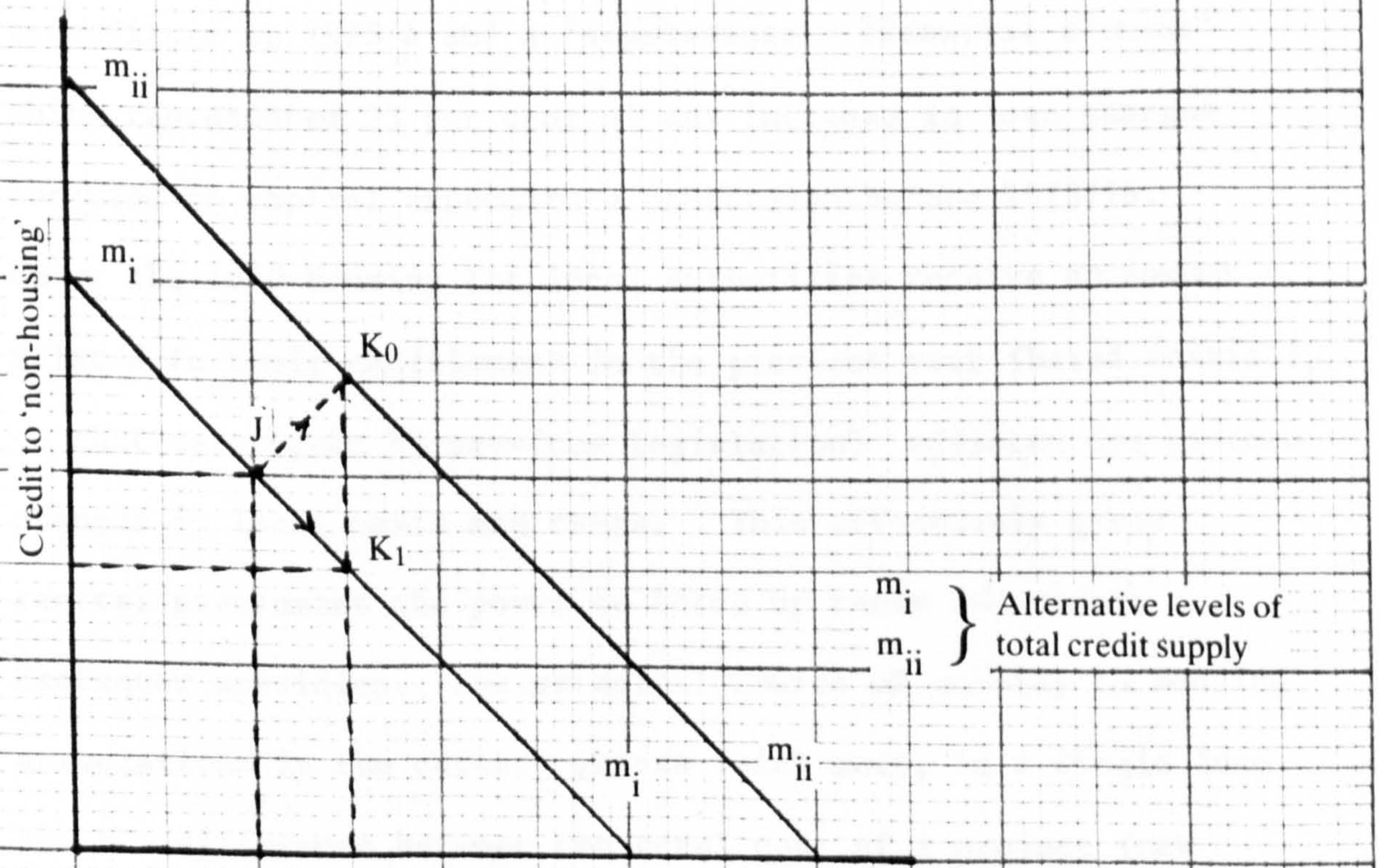



Figure 4.8 Credit to housing and 'non-housing'



government.

In the U.K.,Exchequer subsidies to local authority housing revenue accounts are in part a contribution to interest charges although the exact relationship between interest costs and subsidy has varied under particular pieces of housing legislation. The most direct relationships were provided by the 1967 Housing Subsidies Act which applied from 1967 to 1972, and the 1975 Housing Rents and Subsidies Act which applied from 1975 to 1977. Briefly, and with some simplification, the 1967 Act replaced a previous system which gave fixed annual contributions for each completed house by one which met the difference between loan charges at the prevailing rate of local authority borrowing and those charges that would have been paid if the borrowing rate had been 4 per cent. The 1975 arrangements included a 'capital cost element' equal to 66 per cent of annual loan charges on approved capital expenditure in 1975/6 and a 'supplementary financial element' which represented 33 per cent of any increase in loan charges incurred on capital expenditure undertaken before 1975/76. Under the 1980 Housing Act local authorities receive an amount related to their entitlement in the previous year (based initially on that determined by previous legislation) adjusted for assumed changes in local costs and rents. This effectively gives central government the power to force up rents and reduce Exchequer subsidies. The principal source of subsidy to housing associations is the capital grants which meet, in a single lump sum the difference between the total cost of a project (new building or rehabilitation) and the loan which could be met from a fair rent less the cost of management and maintenance.

All the countries of this study provide substantial subsidies which reduce the borrowing costs of suppliers of rental housing. Given that, in each country, the private sector is now a minority supplier of new rental housing, subsidies to non-profit associations and local authorities are crucial elements in reducing the supply price of new rented accommodation. The following generalisations apply in varying degree to all the countries studied and help to identify a number of issues which link the discussion of this section with policy problems discussed in other sections and chapters.

The share of interest costs in the total costs of a housing organisation (whether it be a non-profit housing association or a local authority) is partly a function of the age structure of the organisation's stock. An organisation with a high proportion of old rented stock will tend to have a lower debt burden than one with a relatively low proportion of older housing. This is a consequence of long run increases in construction costs and interest rates in each country. The lower costs have, in those countries without rent pooling, been reflected in lower rents in the older stock.

As debt burdens have increased governments paying debt related subsidies have found these subsidies an increasing burden on the Exchequer. In each of the countries studied, governments, were under pressure in the 1970s to reduce these subsidies for reasons associated with the management of the macro economy. This pressure has met with a number of responses, viz:-

(1) Encourage owner-occupation and lower support for rented accommodation. This reduces the *direct* Exchequer subsidy burden if the major interest subsidy to owner-occupiers is in the *indirect* form of tax relief.

(2) Raise rents in order to reduce the need for Exchequer subsidies. A difficulty here is that the age structure of an organisation's stock may produce an unfavourable relationship between rent raising ability and debt charges. An organisation with a large proportion of new property with high interest rates and high rents will be in particular difficulties. In the U.K. the difficulty is eased by rent pooling. Non-profit organisations in West Germany, the Netherlands, Denmark, and France, have to set cost-related rents for each development and cannot transfer rental income from old property to help meet loan charges on new property. Smaller associations with large amounts of newer property (of which there are many in France and West Germany) could not benefit even if rent-pooling was possible. If rents on the newer stock are increased this produces an 'unacceptable' relationship between income levels and rents. There is thus pressure for a further response - i.e.:-

(3) Provide, or increase the significance of, housing allowances to help tenants meet rising interest costs. One reason for the growth of housing allowance schemes in West Germany, Denmark, the Netherlands and France is that in each of these countries governments have accepted the argument that a switch from object subsidies (e.g. interest subsidies related to buildings)

to subject subsidies (e.g. housing allowances) will result in a lower Exchequer burden. The strength of this proposition depends on a number of factors especially:- (a) the volume of new housing that the government desires and (b) the rent burden which the government is willing and able to impose on tenants.

(iii)(c) Measures to increase the volume of funds to housing consumers by the direct provision of loans.

Governments can supplement the supply of housing credit provided by the market with direct loans to house buyers. Governments finance this by borrowing or taxation. Superior borrowing powers may allow governments to attract funds from non-housing towards housing uses. This produces a shift like that from J to $K_1$ in Figure 4.8. If government borrowing increases the total credit supply, the move is from J to $K_0$.

Government provides mortgage finance in France, the U.K. and Ireland. In France this is mainly via the Credit Foncier and in the U.K. and Ireland via the local authorities. The finance is not necessarily provided at rates below those prevailing from other sources. This implies that the situation without government mortgages (at least) is one of excess demand for mortgages. This is shown in Figure 4.9. Without government mortgages $M_o$ funds are provided by non-government financial institutions at a rate of interest equal to $i_1$. Government supplies a maximum additional amount equal to OV minus $OM_o$ (or 'b' as it is labelled in Figure 4.9).

Governments may not wish 'b' to grow beyond a given size for reasons associated with macro-economic policy objectives. Lending 'b' may not involve any subsidy in the sense that the funds are lent at market rates but it does involve public expenditure considerations. If governments wish to reduce public expenditure they may wish to encourage an expansion of 'a' and reduction of 'b' even if this means some increase in mortgage rates.

This is what happened in the U.K. in the period 1975 to 1977. Government imposed cuts in public expenditure and these included reductions in local authority mortgages. The building societies were asked to help fill the gap thus created. The building societies agreed in principle to take on this extra lending. The figures in Table 4.2 illustrate the changes that occurred in 'a' and 'b'.

Table 4.2: Lending for house purchase. Major institutional sources - U.K. 1974-77.

Percentages

| | 'a' | 'b' |
|---|---|---|
| 1974 | 87 | 13 |
| 1975 | 89 | 11 |
| 1976 | 98 | 2 |
| 1977 | 98 | 2 |

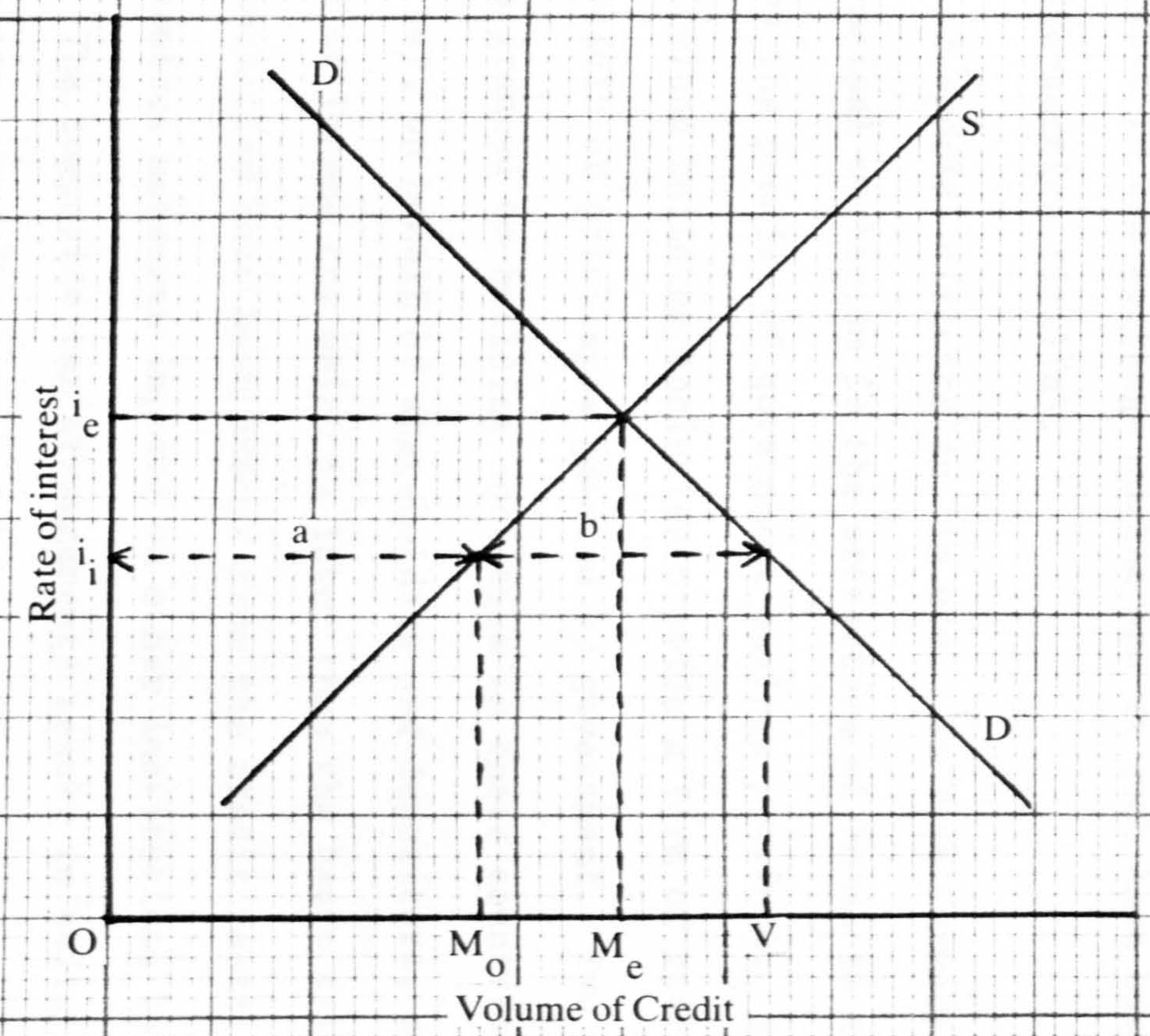
'a' = Percentage of total lending (by value) for house purchase from building societies and insurance companies.

'b' = Percentage of total lent (by value) for house purchase from local authorities.

(only these three major institutional sources considered).

Source: 'Building Society Support scheme for Local Authorities', B.S.A. Facts and Figures Number 15, July 1978, Table 1.

Figure 4.9 Volume of mortgages supplied by non-government financial institutions and government.




'a' = mortgage funds supplied by non-government financial institutions

'b' = mortgage funds supplied by government

(iii)(d) Measures to increase the volume of funds to housing consumers by 'special circuits' and loan guarantees.

These measures are intended specifically to divert funds towards housing and away from non-housing uses. The aim is thus a move such as that from J to $K_1$ in Figure 4.8 with the diverted funds going to house purchasers. Non-government financial institutions supply the additional funds as a result of government subsidies or privileges. These measures induce a shift of the supply curve of mortgage finance, such as that from SS to $S_uS_u$ in Figure 4.7.

In practice, some of the methods used are similar to those used to induce lower costs in the mortgage market and as such have been discussed in sub-section (iii)(a).

Various forms of 'special circuits' are in use. In West Germany and France the principal mechanism is the attraction of funds to the institutions by the promise of government savings premiums. In the U.K. and Ireland building societies provide a form of special circuit as a result of privileges granted by government. Two main privileges are granted to building societies in these countries:
(a) societies pay, on behalf of shareholders and depositors, a composite rate of income tax which is lower than the basic rate,
(b) building societies have been exempt from the credit restriction and monetary control measures imposed on other institutions by the central bank. The composite tax arrangements result in building societies investments giving a net yield which is frequently higher than the alternatives, particularly for those with all of their taxable income subject to the basic rate. The exemption from

direct credit controls does have to be weighed against the force of 'moral suasion' applied to building societies by government. Building societies are legally free to expand their lending by as much as they wish and charge whatever rate of interest they wish but governments do, of course, take views on both these matters and from time to time seek to press their viewpoint.

The Dutch mortgage loan guarantee scheme is intended to increase the volume as well as reduce the cost of housing finance. By underwriting the loans to certain privileged borrowers (those on specified lower incomes and purchasing properties below given prices) government reduces the risk to financial institutions and encourages lending for this purpose.

(iii)(e) Measures to increase the volume of funds to housing suppliers by direct provision.

As an alternative to relying on the capital market to supply funds to non-profit housing organisation, governments can engage in direct lending. In West Germany, the Netherlands and France housing associations obtain the greater part of their borrowed funds from the government. Up to 100 per cent of loan funds can be supplied for West German associations building for the social housing programme and Dutch associations building 'Housing Act' dwellings. French H.L.M. organisations obtain a proportion of their funds from the government controlled Caisse de Prêts aux organisms d'H.L.M. which is, in part, directly financed by central government. The exact proportion of funds going to a particular H.L.M. depends on its particular housing programme.

Danish non-profit associations, in contrast to their West German, Dutch and French counterparts, obtain a high proportion of their funds from the private capital market. 74 per cent of their capital is raised by the issue of bonds in the open market. In 1979 a further 10 per cent was provided directly by central government, 6 per cent by local authority loans, 7 per cent from the National Building Fund for Non-Profit Housing (see sub-section (iii)(f) below) and 3 per cent from tenants deposits. Irish housing authorities obtain 100 per cent of their loans from central government.

Local authorities in the U.K. operate a consolidated loans fund (or loans pool) which covers all borrowing for all purposes including housing. The pool lends to the housing revenue account. The consolidated loans fund borrows from a variety of sources principally by the issue of local authority bonds and by borrowing from the Public Works Loan Board which receives funds as a consequence of central government borrowing. Central government thus indirectly lends money to finance council housing but there is no precise and controlled relationship between government lending and other sources of borrowed funds. In fact, given the amalgamation of sources of capital to the local authorities that occurs through their consolidated loans funds it is impossible to identify 'central government loans for council housing' as a separate item.(1)

---

(1) Furthermore, the percentage of L.A.B.R. (Local authority borrowing requirement: aggregated for all authorities) taken from central government varies considerably from year to year e.g.

| | |
|---|---|
| 1976/77 | 31 per cent |
| 1977/78 | 71 per cent |
| 1978/79 | 26 per cent |

Source: Butler, T. (1979) 'Recent Trends in local authority borrowing', Economic Trends Number 313, November pp.80-89.

U.K. housing associations obtain a large proportion of their borrowed funds by borrowing from the Housing Corporation which obtains funds from central government. They also borrow from local authorities and in the open market.

(iii)(f) Measures to increase the volume of funds to housing by 'special funds'.

Governments can pass legislation which establishes 'special funds' which obtain revenue from 'non-government' sources and lend this for housing purposes. Two major examples of such funds exist in the countries studied; one in Denmark, the other in France.

In Denmark the National Building Fund for Non-Profit Housing obtains funds from rent increases in the non-profit sector. It was established in 1967 as a consequence of the '1966 Housing Pact' which, amongst other things, authorised rent increases on the older stock. The Fund receives 70 per cent of the proceeds of the increases (30 per cent remains with the associations). The Fund provided 7 per cent of housing association capital in 1979. Given that the fund collected income from older housing and redistributed this to new building it has been, in part, an alternative to rent pooling for it has performed a similar function. However, by 1982 government funds had replaced the Fund's contribution to new building and the Fund will concentrate on providing capital for the rehabilitation of older non-profit housing.

All French employers with more than 10 persons on the payroll, (with certain exceptions including the State and agriculture) must contribute each year a sum equal to 1 per cent of their

annual wage bill to a fund which is used for housing purposes. A variety of uses are made of the funds including support for H.L.M.s and supplementing the municipalities' finance for the purchase of housing land. The '1per cent scheme' is another example of a device which induces a shift such as that from J to $K_1$ in Figure 4.8. The extent to which the shift is fully equal to the value of the 1 per cent contribution depends on the extent to which the funds, if not collected, would have found their way into housing uses e.g. if wages were higher without the contribution a proportion of these higher wages might be spent on housing. The order of magnitude of such effects is difficult to determine.(1)

## 4.5 Policy Instruments associated with an inefficient or inequitable allocation of the existing stock.

Governments may seek to influence the allocation of the stock by affecting the payments households make or by using regulations which determine who may occupy particular dwellings.

### (iv)(a) Measures to relate housing payments to both (a) The size and quality of dwellings, and (b) Ability to pay by housing allowance schemes.

These measures concern rented housing. The relevant instruments have been discussed in sub-section (i)(d) in relation to their 'cost-reducing function'. Here the concern is with their 'equity function'. The latter implies producing an 'equitable' relationship between housing payments and size and quality of dwellings

---

(1) The same could be said of any taxation or borrowing which effectively takes funds from one use and allocates them to another.

and ability to pay. What is equitable is a normative judgement on which governments may take a view.

The housing payment (let this be 'P') is what a household pays out of own household income. A landlord or housing association has asking rents 'R' which may be higher. The housing allowance 'A' is the difference between the two.

Thus, for a given household, P = R - A. In a given rented stock there will be a mix of size of dwellings, quality of dwellings, and a mix of rent levels. In a competitive market one might expect the pattern of rent levels to reflect differences in the size and quality of dwellings i.e. large high quality dwellings have higher rents than small low quality dwellings.

Assume such a pattern exists.

Two households with equal incomes decide to rent properties with different rent levels. Household 'a' has a higher rent than 'b'.

If a housing allowance system is in operation which simply requires that a household pay no more than a given proportion of income in rent the value of 'P' for both households is the same but the asking rents of the properties occupied and the housing allowances received are different.

Under these arrangements, housing payments are not related to size and quality of dwelling for the same payment is made for dwellings of varying size and quality. To overcome this problem housing allowance schemes, in practice, relate 'A' not just to income but but also to 'R'. The relationship between 'A' and 'R' was discussed

in section 4.2. Under the schemes in West Germany the Netherlands, Denmark, and France 'A' increases in money terms up to a given level of rent then remains at a constant maximum amount.

In order to achieve a relationship between ability to pay and 'P', the value of 'A' tends to fall with increasing income and rise with increasing family size, ceteris paribus.

If rent differences accurately reflect size and quality differences and the housing allowance is suitably related to rent and income levels the relationship between housing payments, size and quality of dwellings, and ability to pay will accord with a desired pattern.

However, if asking rents are not an adequate proxy for size and quality, housing allowances will not produce a desired relationship between housing payments, size and quality of dwellings and ability to pay. Governments may then have to seek additional measures to produce a suitable relationship between asking rents and size and quality of dwellings (see sub-section (iv)(b)).

The following notation helps explain and develop these propositions.

Policy makers seeking an equitable distribution of the stock are concerned with the following variables:-

| | | |
|---|---|---|
| Size and quality of dwelling | = | q |
| Asking rent | = | R |
| Household income | = | Y |
| Housing payment | = | P |
| Household size | = | n |

There are desired relationships between

q and n

Y and P

n and P

If a housing allowance is used there is only one policy variable 'A' which is used in an attempt to produce these desired relationships.

Typically, $A = f(Y, R, n,)$ and $A = R - P$.

If, $q = f(R)$

Then, $A = f(q)$

If q is not related to 'R' a desired relationship between q and n is difficult to achieve for there is no link between q and the other variables.

(iv)(b) Measures to relate housing payments to size and quality by 'harmonising' rents between old and new dwellings.

A major problem recognised particularly in the Netherlands and Denmark is that asking rents have not reflected size and quality differences but rather they have reflected differences in historic costs and current debt charges on properties. Thus older rented properties have had lower rents than newer dwellings of equivalent or inferior size and quality. There are two major reasons for this. In the non-profit sector rents have been set on an historic cost basis as a condition of subsidy and in the private rented sector rent controls have applied mainly, and most severely, to the older stock.

In the Netherlands and Denmark, measures to raise the rents of older dwellings and reduce those of new dwellings have been introduced. In the private sector this has meant relaxing rent controls on the older stock and in the non-profit sector altering the rules regarding rent determination. The Danes have relied almost

exclusiyely on the non-profit sector to supply new rental housing, with direct subsidies to keep down rents. The Dutch have similar subsidies in the non-profit sector but have also tried to reduce rents in the newly built private sector by d.c.p.r. and subsidies but the latter measures have not been very successful as the lower rents have discouraged investment despite the subsidies (see section 4.2, sub-section (i)(b).

To the symbols used in sub-section (iv)(a) a further symbol can be added: N = number of new rental units supplied. If policy makers are concerned about a given size of 'N' as well as achieving the relationships outlined in (i)(b) the problems are more complex. In an attempt to achieve the distributional goals set out in (i)(b), 'R' may be reduced for the new stock but if 'N' is a positive function of 'R', lowering 'R' also lowers 'N'.

In West Germany and France differences between 'old' and 'new' rents are regarded as significant problems and are being tackled by gradual increases in 'old' rents.

In the U.K. and Ireland the problem is less severe because most rental housing is in the public sector and subject to a system of rent-pooling which tends to even out differences between the rents of older and newer dwellings. (These issues will be disucssed further in Chapter Five.

(iv*)[1] The relationship between housing payments and size and quality of dwellings and ability to pay in the owner-occupied sector.

In the owner-occupied sector annual housing payments are a function

---

(1) This sub-section is not identified in Table 4.1 as it is a problem for which specific instruments have not been identified. In short, an important but neglected issue.

of size of mortgage and the relevant interest rate. Size of mortgage is partly a function of house price which is partly a function of year of purchase. Interest rates for those who borrowed at fixed rates of interest (as have many borrowers in West Germany and the Netherlands in particular) are also a function of year of purchase. Those who bought many years ago may have much lower housing payments than recent purchasers living in dwellings of similar size and quality. Those who bought many years ago may also have higher incomes than recent purchasers and thus have much greater ability to pay. It can thus be argued that current housing payments are not related in an equitable fashion to income levels or to size and quality of dwelling. This issue of distributive justice in the owner-occupied sector has, however, attracted relatively little attention or policy action compared with the equivalent issue in the rented sector. This applies to all the countries studied. However, the payment of taxes on the capital values of owner-occupied properties (West Germany, the Netherlands and France) or taxes on imputed rental values (Denmark) can raise the effective level of current housing payments. In practice these taxes tend to impose only a small burden and are largely offset by a variety of concessions. The principal policy instrument in the owner-occupied sector (except in West Germany) is M.I.T.R. which benefits most those on higher incomes and thus works to produce a further inequity in the relationship between incomes and housing payments. (This is less in countries with limits on the extent of M.I.T.R. allowed). Some of these points will be taken up in Chapter Seven.

(iv)(c) Regulations which give upper income limits for 'social' housing.

If subsidised rental housing is intended for households below a certain income level it is possible to impose upper income limits on the occupants. This may be done by an income test, as for the West German Sozialwohnungsbau, which is available only to those households below specified income levels (detailed in Section 4.2), or those on higher incomes may be 'encouraged' to leave by higher 'penalty' rents. This was the case with the 'sur-loyer' system for H.L.M. housing in France. However few H.L.M. organisations kept to the rules and implemented the sur-loyer. It is in any case being replaced under the Barre proposals by higher rent levels with increased housing allowances for lower income groups.

The West German system checks income only when a tenant enters sozialwohnungsbau, but, even if periodic income tests were applied, this would rarely force households to leave social housing because their income is too high. This is because the limits are generous covering at least 60 per cent of the population, and there are low rates of inflation and periodic increases in the limits. Only a household with an income very near the limit on entering social housing and then receiving large increases in income is likely to fall outside the limits.

A system which forced large numbers of households to move because of increases in income is likely to meet with strong political pressure in any country. Income limits on entry are likely to be

more acceptable but the critical issue is the socio-political problem of whether or not non-profit or municipal housing *should* be principally for those below certain income levels. This argument will not be taken up here but, of themselves, income rules do nothing to promote a required relationship between rental payments and incomes that cannot be achieved by an appropriate housing allowance system.

(iv)(d) Regulations which set size of dwelling limits for 'social' housing.

Such measures are applied at the point of addition to the stock (i.e. they apply to new construction) but are intended to ensure that the future stock is not composed of subsidised dwellings which are 'too large' according to some arbitrarily defined criterion. Large dwellings would require higher cost-related rents and thus, even after any housing allowance, be more attractive to higher than lower income households. The main argument is, however, that dwellings of a given size are quite sufficient to provide decent housing and anything above this size is unnecessary and is a wasteful distribution of resources in favour of 'size of dwelling' and away from 'numbers of dwellings' in the stock. The West German regulations for social housing provide the only example of direct control in the form of definite limits of a specified number of square metres for both subsidised rental and owner-occupied dwellings (detailed in Section 4.2) but the cost limits per dwelling imposed in other countries set effective upper limits in a less direct fashion.

(iv)(e) 'Allocation rules' for rental housing

If government is concerned that the allocation of the stock be in accord with some criterion of need or social justice it can attempt to influence that allocation by various controls. Council house waiting lists in the U.K. are excluded from consideration because the concern here is with central government measures. There are no national rules about who shall and who shall not occupy council housing in Britain. There are two major examples of central government attempting to influence directly the allocation of rented housing: one (not very effective) system in France and another more authoritarian (and much more effective) scheme in the Netherlands. The French scheme applies to H.L.M. dwellings; the Dutch to non-profit and private rented dwellings.

In France central government has, from time to time, taken steps to influence the allocation of H.L.M. dwellings. There has been much conflict between government and the H.L.M. movement over tenant selection procedures.

The government has always taken the view that the H.L.M.s are for those on low incomes but the H.L.M.s claim that they are unable to provide housing for the poorest sections of the community, because the loans which are made available to them are not on sufficiently generous terms.(1)

There was, for a brief 16 month interlude in 1954/5, a compulsory points system applied to all H.L.M.s. The associations refused to operate the scheme objecting most strongly to this diminution of their discretion and government withdrew the scheme. Since 1968

---

(1) Duclaud-Williams, R.H. (1978), 'The Politics of Housing in Britain and France', London, Heinemann, pp.131-148.

the Prefects have compiled, on behalf of central government, 'priority lists' which name families in urgent need of rehousing. The list is delivered to the local H.L.M. representatives. The H.L.M.s are then obliged to allocate minimum percentages of dwellings to applicants on this list (In the Paris area 30 per cent of new dwellings and 50 per cent of re-lets). However, as the Prefect always supplies many more names than there are dwellings available, H.L.M.s are left with considerable discretion. Government acknowledges that it has failed to achieve its objectives in this area. The Barre Committee was concerned, in 1975, that while 14.7 per cent of the French population earned less than 10,000 francs per annum, this section of the community constituted only 5.9 per cent of H.L.M. tenants. Barre, however, concluded that the distribution of H.L.M. dwellings could be best improved not by points systems or compulsory allocation procedures but rather by reducing the direct aid to H.L.M.s and increasing the level of personal assistance via A.P.L.

In the Netherlands the government exercises extensive control over who obtains lower rent and lower price dwellings in the Randstad area. To rent or buy a house in this area (which houses 35 per cent of the population) one must obtain from the authorities a 'Certificate of Registration'. These are issued in 3 categories: 'normal', 'socially urgent', and 'medically urgent'. Basically the more urgent the housing need the more help given by the Wooruimtezaken (Local Housing Department of the Municipality) in finding a suitable dwelling.

In the rented sector, once a dwelling has been found households

are not free to move into the dwelling unless the rent is more than DF1 540 per month (1979) (About £120). If the rent is below DF1 540 per month a 'Permit of Residence' (Woonvergunning) is necessary.

The Rotterdam housing department says in information for prospective tenants

"Because there is still a serious shortage of acceptable living accommodation there have to be all sorts of rules and regulations to make sure that the few dwellings available for letting are distributed in a fair manner", and "Please, never move into a house with a rent of less than DF1 540 per month if you do not have an official permit. If you are not granted a permit you have no right to stay where you are. This is particularly unpleasant if you have taken over furniture and such, for in general you will not get your money back."(1)

Permits are only issued if a number of conditions are met. The following conditions applied in Rotterdam in 1979 (There are slight variations elsewhere in Randstad):-

(a) Rent must be below DF1 540 per month.

(b) Gross household income must not exceed DF1 38,150 (about £8,420).(2)

(c) Size of family must correspond to size of dwelling;-

- no more than three rooms for one or two persons
- no more than four rooms for three or four persons
- number of rooms equal to number of persons for households of five or more persons.

/(d).....

---

(1) Woonruimtezaken Rotterdam (1978), 'Randstad Information Notes' in Building Societies Association (1979A), op. cit.

(2) Statutory minimum wage 1979 = £4,900 (approximately).

(d) A statement from the landlord that the household has been accepted as tenants must be produced.

(e) Ground floors are normally only for those with 'urgent medical grounds' or over 63 years of age.

(f) Appicants must live in the municipality area or be economically dependent on it (unless over 63).

These rules apply to rented housing in the private sector as well as in the non-profit housing sector. The degree of control over allocation is extraordinary compared with all other countries in this study. No comparable provisions exist elsewhere.

(iv)(f) Allocation rules for owner-occupied housing

As already stated, all potential purchasers of houses in the Randstad area of the Netherlands must obtain a certificate of registration.

Households cannot move into a house in Randstad with a purchase price below DF1 270,000 (About £60,000) without a residence permit (Woonvergunning) (Average house prices 1978: Housing Act dwellings £13,000; other goverrment aided dwellings £18,500; dwellings without goverrment aid £30,750).

The conditions governing the issue of Woonvergunning are:-(1)

(1) Purchase price below DF1 270,000.

(2) Applicant must be economically dependent on the area (or over 63 years of age).

/(3).....

(1) Again for Rotterdam, 1979.

(3) A single person must not occupy more than three rooms;

for two or more persons there must be four or more rooms.

Furthermore, if the dwelling was rented for less than DFl 540 per month immediately before coming onto the market for sale the conditions relating to income and the relationships between household size and income (b and c in (iv)(e)) applying to rental accommodation must also be met.

These conditions take the owner-occupied housing market in the Randstad further away from the 'free market' conditions than is the case in any other country studied. In all other cases allocation is basically according to price and willingness to pay.

There has unfortunately been no attempt to estimate the effects of these non-market allocation rules on who gets what either in the rented or owner-occupied sector.

## 4.6 Measuring the value of subsidies : Direct and Indirect Subsidies

It is possible to classify policy instruments according to whether they comprise a form of 'direct' or 'indirect' subsidy or aid. Direct subsidies are a direct burden on the Exchequer in the sense that they involve public expenditure financed from taxation or borrowing. Grants to housing associations, improvement grants to landlords and housing allowances to households are thus examples of direct subsidies. A money figure can be identified from government accounts to ascertain the Exchequer cost of these payments. Indirect subsidies are more difficult to measure. They comprise the benefits to

housing consumers and suppliers which result from any form of tax relief or other concessions or regulations introduced by governments. Thus mortgage interest tax relief is an indirect subsidy as is the benefit of lower rents experienced by tenants in rent controlled properties.

The existence of indirect as well as direct subsidies causes problems for the measurement of the cost of housing subsidies to central government and makes a comparative assessment of the degree of intervention in housing markets most difficult.

Direct subsidies pose a definition problem "what is to be included in the term 'housing subsidy'?" The Dutch government identified DFl 9.1 billion as planned housing expenditure for 1978 (8.6 per cent of total government expenditure). However, of that, DFl 250 million was for 'infrastructure' and 100 million for 'physical planning'. In West Germany in 1978 DM 1,100 million of 'identified housing aid' was spent on 'urban development aid' which includes general refurbishment of the environment. There is no way of knowing without much further investigation to what extent these sums create additional dwellings, improve the quality of dwellings or reduce housing costs. There are, furthermore, no general rules about what a government includes in the item 'housing expenditure'. Housing loans from governments cause a particular problem. A Dutch statement includes all government housing loans under the term 'subsidy'; a Danish analysis, much more realistically, identifies only the interest savings on government loans as subsidies. There is a danger that all public expenditure on housing, including loans, becomes identified

as 'housing subsidies'.

There is no common international agreement as to what items of government expenditure should count as subsidies. Direct subsidies should, on the definition used above, include only those items which are a direct burden on the Exchequer. This burden should be a lasting burden. It is not a lasting burden if the amount received by the housing sector is repaid at market rates of interest. Direct subsidies reduce housing consumers' or suppliers' costs below a level that would exist in the absence of these payments.

Measuring indirect aid is more complex still. Many different concessions to the housing sector exist in the various countries. Tenants can benefit from low rents as a consequence of rent controls, for example, or as a result of low interest payments on subsidised loans granted to the suppliers of rented accommodation. Tenants might, alternatively, get some benefit from grants to housing suppliers.

Owner-occupiers might obtain tax relief on imputed rental income or some relief from taxes on the capital values of dwellings or the capital growth of dwellings while assets held in a 'non-housing' from are not subject to these concessions. Loans for house purchase may be available at below market rates of interest. There may be exemptions from various other taxes which do apply to 'non-housing buildings' or to other forms of wealth holding e.g. Stamp duty or land tax exemptions. Various permutations of these possibilities exist in the different countries. However, as the examples set out below show, there are widely varying

interpretations as to what should be included as subsidies and various methodologies have been used by analysts to value indirect subsidies. The problems are particularly difficult when assessing the tax concessions to owner-occupiers. A specific problem is "Is the tax concession peculiar to housing?" Tax relief on mortgage interest payments may not correctly be termed a housing subsidy if money borrowed for non-housing purposes also attracts tax relief as is, for example, the case in Denmark. The problems can be illustrated by examining various attempts to measure indirect as well as direct housing subsidies. Points from five separate studies are outlined below:

(i) Denmark: Direct and Indirect housing subsidies, 1976/77

(Study by J. Sondergaard, University of Aarhus, for the research organisation S.B.I.[1]

Table 4.3: Direct and Indirect Subsidies, Denmark 1976/77

| Form of Grant | Value of Grant | Public Expenditure/ loss of Revenue |
|---|---|---|
| | (millions of Kroner) | |
| Boligsikring | 710 | 710 |
| Rentesikring | 805 | 805 |
| Interest savings on loans to non-profit housing | 105 | 75 |
| Partial tax-exemption for owner-occupiers | 5,100 - 8,200 | 5,100 - 8,200 |
| Rent Controls | 600 - 900 | 150 - 250 |
| Totals: | 7,330 - 10,730 | 6,850 - 10,050 |

Source: Sondergaard, J. (1978), 'Direkte og indirekte tilsud til boligsforbruget'; SBI Rapport 107. (Various parts translated by British Library Translation Service, 1980.

(1) Sondergaard, J. (1978), 'Direkte og indirekte tilsud til boligsforbruget'; SBI Rapport 107. (Various parts translated by British Library Translation Service, 1980.)

The report argues that in Denmark M.I.T.R. should not be considered as a housing subsidy because tax relief is given to all debtors, whatever the purpose of their loan. The significant subsidy to owner-occupiers, it is argued, arises from imputed rental values which, as the basis of an owner-occupier tax, are too low. The argument is that:

"(Interest) reduction rights, which have taken a far greater place in the public debate than have low rating of rental value, do not imply any particular advantage for people who own their own homes", However, "when the rental value of particular homes is rated lower than the actual service value of the dwelling, then those who own their own houses are indirectly receiving a grant from the public".(1)

The argument is that owner-occupiers obtain concessions compared with investors who hold their wealth in other forms and who pay tax on the full market value of their wealth.

Rental values based on estimated market values are used as a basis for calculating the tax due. The tax paid is deducted from this to give the estimates shown. For the rented sector, an attempt is made to calculate market rent levels. To the extent that controlled rents are below these levels, tenants receive subsidies, but these are a redistribution from landlords to tenants. This subsidy is not, thus, paid by government. There is, however, a tax loss to government. This is as a result of landlords' taxable income being lower with controlled rents. An estimate of this tax loss is given.

---

(1) ibid., British Library Translation RTS 12 384 A, p.4.

Taking the mid-points of the estimates, indirect subsidies total DKr 7400 m (6650+750) out of a total value for subsidies of DKr 9030 m. Thus indirect subsidies constituted 81.9 per cent of total housing subsidies.

(ii) Ireland 1971-72 to 1975

(Study by National Economic and Social Council.)[1]

Here only the figures for 1975 are considered. Table 4.4 summarises the 'state commitment to housing subsidies' in 1975.

The figures do not include subsidies which are not an Exchequer cost. The direct items are 1, 3, 4, and 5. The indirect items are 12 and 14. (14 is a result of sales at concessionary sub-market prices).

Thus, from Table 4.4

| | |
|---|---|
| Direct subsidies = | £41 Million |
| Indirect subsidies = | £55 Million |
| Total = | £96 Million |

Two additional indirect subsidies which do not involve an Exchequer loss are identified :

(a) Tenants of rent-controlled dwellings received an additional £6.5 m in the form of rent reductions at the expense of landlords.

(b) Owner-occupiers savings from fixed interest rates on life assurance mortgage lending. This is put at 3.3 m.

---

(1) National Economic and Social Council, Dublin (1976), 'Report on Housing Subsidies'.

Table 4.4: Housing Subsidies in Ireland, 1975

| | | £m |
|---|---|---|
| | **Subsidies to Tenants** | |
| 1 | Subsidies to Local Authority tenants. | 26.2 |
| 2 | Tax foregone on rent of tenants in rent controlled dwellings. | 3.5 |
| | **Explicit subsidies to Owner-occupiers** | |
| 3 | State and Local Authority grants for new housing. | 8.7 |
| 4 | State and Local Authority grants for reconstruction and repair. | 4.0 |
| 5 | Subsidisation of building society loan interest rates. | 2.1 |
| 6 | Total explicit subsidies to owner-occupiers (Rows 3 to 5). | 14.8 |
| | **Implicit subsidies to Owner-occupiers** | |
| 7 | Cost to Exchequer of stamp duty exemption. | 4.3 |
| 8 | Tax relief on mortgage interest. | 12.9 |
| 9 | Effect of fixed interest charges on Local Authority loans. | 4.3 |
| 10 | Rates remission on new and reconstructed houses. | 6.0 |
| 11 | Tax relief on capital gains. | 3.0 |
| 12 | Total implicit subsidies to owner-occupiers (Rows 7 to 11). | 30.5 |
| 13 | Total subsidies to owner-occupiers Rows 6+12) | 45.3 |
| 14 | Subsidies at point of sale to Local Authority tenants who purchase. | 21.0 |
| 15 | Total subsidies to all households (Rows 1+2+13+14) | 96.0 |

Source: National Economic and Social Council, Dublin (1976), 'Report on Housing Subsidies'.

With these items added,

Direct subsidies = £41 Million

Indirect subsidies = £65 Million

Total £106 Million

Indirect subsidies thus equal 61.3 per cent of total subsidies.

Total indirect subsidies may, however, be more. Item 1 (Table 4.4), subsidies to local authority tenants, is measured by the difference between aggregate 'economic-rents' (ER) and aggregate rents paid (RP). This sum is equal to the local authority housing current account deficit financed by the Exchequer. Here 'economic-rent' is used to define the annual debt service charge plus maintenance and administration costs. Aggregate 'economic-rents' based on historic costs are below estimated market rents for local authority dwellings. Thus,

tenant subsidies on a market value basis = MR - RP

tenant subsidies on a cost basis = ER - RP

additional implicit subsidy = MR - ER

The measurement of implicit subsidies received by owner-occupier is necessarily arbitrary. The report argues that "By far the largest element of subsidy to owner-occupiers is the cost to the Exchequer of the tax exemption of the imputed net rent".(1) However, attempts to measure this have been widely divergent (Varying from £6 m to £36 m for 1974). The Report thus jumps to the position that "In place of the tax foregone on net rent, the implicit subsidy is estimated by the value of tax relief on loan interest".(2) Why the tax foregone on imputed rental income should not also be considered and added to M.I.T.R. is not clear. The treatment of implicit subsidies to owner-occupiers clearly differs markedly from that adopted in the Danish study.

---

(1) ibid., p.9

(2) ibid., p.10

(iii) West Germany 1978

(Internal document supplied by West German Housing Ministry.)(1)

Table 4.5 has been compiled from information supplied directly by the West German Housing Ministry.

Table 4.5: Housing Subsidies West Germany, 1978.

| | Instrument | Exchequer Cost |
|---|---|---|
| 1 | 1FW & 2FW (Encouragement of social housing) | 4,700 m |
| 2 | Income tax concession to owner-occupiers from depreciation allowance | 5,100 m |
| 3 | Land tax exemptions for new housing | 900 m |
| 4 | Modernisation programme | 300 m |
| 5 | Energy saving programme - insulation costs | 400 m |
| 6 | Tax conessions to promote modernisation | 700 m |
| 7 | Exemptions from 'purchase tax' for house-building land | 3,500 m |
| 8 | Urban development aid | 1,100 m |
| 9 | Bauspremium (savings premium under Bauspar-kassen scheme) | 1,900 m |
| 10 | Tax concessions as alternative to 9 for higher income earners | 750 m |
| 11 | Wohngeld | 1,900 m |
| | | 21,250 m |

Source: Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1980), Internal summary document (supplied directly by the Federal Ministry).

Total housing aid is put at DM 21,250. Items 1, 4, 5, 8, 9, and 11, are direct aid. The remainder is indirect. Total direct subsidies = DM 10,300 m, Indirect subsidies = DM 10,950 m. Thus, indirect subsidies = 51.5 per cent of total identified housing subsidies.

No attempt has been made in the Ministry calculations to

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1980), Internal summary document (supplied directly by the Federal Ministry).

estimate indirect subsidies which do not involve an indirect Exchequer cost; e.g. the benefits to tenants from rent reductions.

(iv) U.K. 1969-76

(Estimates produced for 'Green Paper' on Housing Policy.[1]

Only the figures for 1975/6 are considred here. Table 4.6 is based on the Green Paper's estimates of 'identified housing assistance'. The only indirect subsidy included is M.I.T.R. On this basis indirect subsidies equal 35.5 per cent of total subsidies. No attempt is made to calculate the value of other benefits to owner-occupiers such as a lack of tax on imputed rental income or the absence of tax on capital gains, and the value to tenants of rent reductions is not included. There is much discussion in the 'Green Paper' about estimating aid to council tenants and aid to owner-occupiers and comparing the two but even this discussion does not include estimates for indirect subsidies other than M.I.T.R.

Table 4.6: Housing Subsidies U.K. 1975/6

| Instrument | Value (£m) |
|---|---|
| Mortgage Interest Tax Relief | 961 |
| Option Mortgage Subsidy | 139 |
| Public Sector housing subsidies (Excluding rate fund contributions & Rent rebates) | 966 |
| Rate fund contributions | 244 |
| Rent rebates | 292 |
| Rent allowances | 102 |
| Total | 2,704 |

Source: H.M.S.O.(1977) 'Housing Policy : A Consultative Document' Cmnd 6851, Table 8.

(v): U.K.; 1973

(Study by J.C. Odling-Smee.[1]

Odling-Smee attempted to measure aggregate U.K. housing subsidies using a 'market value' approach. He estimated the total subsidies to housing to be over £5,000 m in 1973. Subsidies in the public sector were measured as the difference between the market rent that would be paid in the absence of government intervention and the actual rent paid. Owner-occupier subsidies are taken as the lack of tax on imputed rental income plus the absence of tax on accrued capital gains. Private sector tenant subsidies are derived from an estimate of free market rents. Uncontrolled tenants, it was argued, have their rents depressed as a consequence of rent control in the rest of the rented stock. The estimates for each sector are given in Table 4.7. They are presented as averages per household.

Table 4.7: Subsidies (average per household in each sector by market-value method, U.K. 1973.

| Sector | Value £ |
|---|---|
| Local Authority tenants | 260 - 280 |
| Tenants of private rent controlled dwellings | 260 - 280 |
| Tenants of uncontrolled private rented unfurnished dwellings | 170 |
| Tenants of furnished dwellings | 0 |
| Owner-Occupiers | 280 |

Source: Odling-Smee, J.C. (1975), 'The impact of the fiscal system on different tenure sectors' in 'Housing Finance', Institute of Fiscal Studies Publications Number 12.

(1) Odling-Smee, J.C. (1975), 'The impact of the fiscal system on different tenure sectors' in 'Housing Finance', Institute of Fiscal Studies Publication Number 12.

The value of total direct subsidies in 1973/4 was, according to government figures £571 m. Thus if one accepts Odling-Smee's estimates, indirect subsidies contributed at least £4429 m or 88.6 per cent of total housing subsidies.

The above examples illustrate that many different methodologies can and have been applied in estimating indirect subsidies. Indirect subsidies in all but case (iv) appear to be substantially higher than direct subsidies. This questions the validity of using only direct subsidies as a measure of total housing subsidies or as an indication of the degree of intervention in housing markets.

The examples above do not exhaust the possibilities for identifying and measuring indirect subsidies. Various measures in the capital market, including special circuits, which reduce mortgage costs are a form of indirect subsidy which have not been subject to estimation. Furthermore, any measure of direct and indirect subsidies fails to consider the consequences of intervention by regulations. Measures which set allocation rules for private and public sector housing are, for example, not subsidies but they involve a substantial degree of intervention.

Given all the problems outlined above, it is necessary that one treats with much reservation an attempt by D. Jaffe[1] to measure the degree of government intervention in housing in various European countries and the United States. In a study for the U.N.E.C.E. Jaffe estimated 'intervention ranks' for 15 European countries and the U.S.A. based on the experience of these countries in the 1960s. Two series were compiled: (a) Direct intervention

---

(1) Jaffe, D. (1973, op. cit.

rank (b) Indirect intervention rank.

Taking the six countries of *this* study, the orderings are

| Direct Intervention | Indirect Intervention |
|---|---|
| 1. Netherlands | 1. Netherlands |
| 2. France | 2. France |
| 3. Ireland | 3. West Germany |
| 4. West Germany | 4. Denmark |
| 5. Denmark | 5. Ireland |
| 6. U.K. | 6. U.K. |

The lower the rank, the greater the intervention. Thus the level intervention is supposed to be lowest in the U.K. Without some explanation of how these results were obtained they are meaningless. Jaffe gives very little information about how he obtained these rankings. He merely writes "To provide at least some country ranks on the basis of government intervention in the housing market, we have attempted to compile qualitative orderings based on the author's interpretation of the material in the country monographs and Mr. H. Umrath's summary." (1)

'Mr. H. Umrath's summary' is a statement, prepared for a seminar, of the material in the country monographs submitted to U.N.E.C.E. There is very little statistical information in any of these documents. Any statistical information that there is is not derived according to a common methodology. Much of the source material is composed of normative generalisations. One should attach very little significance to Jaffe's results. He admits as much himself: "It is apparent that the specific ranks are open to question". (2) In fact the

---

(1) ibid. p.201

(2) ibid.

whole exercise is open to question.

The important point is that the complexities are such that, with the available information, it is impossible to compare in a meaningful fashion the level of intervention in housing markets or the value of housing subsidies in different countries. Much the same conclusion would be revealed, for similar reasons by any serious attempt to measure government intervention in many other markets. The methods by which shipbuilding or coalmining, for example, are protected or subsidised in different countres are so complex and diverse that it would probably be impossible to produce any sensible measure of intervention.

## 4.7 Object and Subject subsidies

In some of the countries studied much academic discussion has developed on the theme of object versus subject subsidies. This has been a major topic of debate for policy makers especially in the Netherlands, West Germany, Denmark and France.

In a 'pure' form object subsidies aid the production of dwellings irrespective of the characteristics of the occupants and subject subsidies aid households irrespective of the characteristics of the dwellings they occupy. Thus a payment to builders of so much per dwelling or a given percentage of total costs without any conditions covering future occupancy would constitute an object subsidy. An allowance paid, to a household, which did not vary with any characteristics of the dwelling would be a subject subsidy. As the discussion in previous sections of this chapter has shown, in practice, all subsidies have conditions attached which invalidate their classification aecording to this 'pure' form.

The less stringent conditions for a subsidy to be classified as an object subsidy is that it is paid to the person commissioning or building a dwelling and is linked to the production of that dwelling. The less stringent condition for a subsidy to be classified as a subject subsidy is that it is paid to households to help them meet periodic housing costs. With this form, most of the subsidies in Table 4.1 can readily be deemed object or subject, although some are more 'subject' or 'object' than others. The subsidies paid to non-profit associations and local authorities to help them construct dwellings are the most significant examples of subject subsidies while housing allowances are the most significant example of subject subsidies. The object versus subject subsidies debate has thus been central to arguments about reducing aid to non-profit housing and putting increasing emphasis on hosuing allowances. Further discussion is postponed until Chapter Six where the arguments will be examined in relation to the effectiveness of housing allowances in achieving specific policy objectives.

## 4.8 Conclusions

Chapter Two showed that the aims of housing policy were similar from country to country. This chapter has shown that a variety of instruments are in use and the mix of instruments varies from country to country : a homogeneity of ends contrasts with an heterogeneity of means. The range of instruments is apparent from an examination of Table 4.1. Certain types of instrument have, however, been used in varying forms in different countries.

Each country, for example, has some form of housing allowance scheme designed to alter the relationship between incomes and costs and

influence the allocation of the stock. The schemes in the U.K. and Ireland are more limited in scope than the West German Wohngeld and the French A.P.L. which apply to all sectors.

Aid for non-profit housing is a major means of 'object' subsidy in West Germany, the Netherlands, Denmark, and France. A variety of subsidies are provided to encourage production and reduce costs to tenants. Subsidisation of interest costs is a significant method of support in each of these countries but the exact means varies considerably. The Dutch and West Germans, for example, rely more heavily on direct finance from the state than do the Danish. In Denmark 74 per cent of non-profit association funds come from the private capital market. In each case the support is traded in return for agreements about the characteristics of the dwellings or the occupants but the exact agreements vary from country to country. These can involve government determination of rent levels, rules about the income of tenants or, as in the Randstad in the Netherlands, more direct regulations about who gets what.

The situation is different in the U.K. and Ireland where housing associations play a much less significant role and local authority dwellings are a far larger component of the housing stock. Production is, to a large degree, influenced by central government subsidies and loans but allocation is primarily a matter for local autonomy.

Rents are controlled inidrectly by agreements with non-profit organisations and subsidies to local authorities and directly by a variety of laws which, in each country, relate principally to the older

housing stock. The degree of control attempted in the private sector varies from the elaborate arrangements of the Randstad to the complete freedom in initial contracts between landlords and tenants in West Germany. In the latter case only subsequent rent increases are subject to regulation. The structure of rents, in particular differences between rents in the old and the newer stock, have been subject to specific measures, especially in the Netherlands and Denmark.

In each country government intervenes in the capital market in a manner which influences the cost and volume of credit flowing to housing producers and consumers. The methods employed vary considerably. Interest costs are subject to varying levels of tax concessions and, in some cases, governments engage in direct lending. Alternative forms of special circuits provide contrasting methods of diverting funds towards housing while leaving private sector institutions as the principal suppliers of funds.

This chapter has shown that there is a wide range of housing subsidies in operation in western European countries but the extent to which governments intervene in housing markets is not something that is measurable. One cannot compare the total value of subsidies in the U.K. with the total value of subsidies in other countries but one can compare the different types of policy instruments that have been used. It will be useful to emphasise the differences between the U.K. and the other countries and to indicate the significance of these differences in explaining certain observations that were presented in Chapter Three.

The U.K. has lacked measures which directly influence the allocation of the housing stock as exist, for example in West Germany (with income limits for non-profit housing) and the Netherlands (with residence permits). Capital market measures in Britain are related primarily to the demand rather than the supply side of the housing market and there is a lack of measures to reduce constructions costs and thus encourage production. The perception of housing problems that is most strongly reflected in the use of policy instruments in the U.K., as noted in Chapter Three, is one of an average relationship between incomes and housing costs. Thus, while in France, West Germany and Ireland, in particular, there have been attempts to reduce the costs of *supplying* housing services, policy measures in the U.K. have sought principally to reduce the cost of *consuming* housing services and the cost reductions have usually been without any consideration of the personal circumstances of those receiving the benefit of this effective price reduction.

Housing policy in the U.K. has, thus, put great emphasis on 'general assistance' which 'meets some part of housing costs without regard to an individual householder's ability to pay'.(1) The principal effects of general assistance, as the 1977 'Green Paper' acknowledged, are to reduce the periodic costs of home ownership, via tax reliefs, and to keep down public sector rents, through Exchequer subsidies. These measures encourage housing consumption but do little to promote housing investment. General assistance, together with measures to promote the supply of credit through concessions to building societies, serves to raise the demand for owner-occupied housing.

---

(1) H.M.S.O. (1977) 'Housing Policy: A Consultative Document', Cmnd 6851, p.32.

Increases over time in general assistance increase demand. The real value of mortgage interest tax relief in the U.K. almost doubled between 1969 and 1976.(1)

Increased demand is met in the short run by increases in the prices of existing houses, as suggested by Figure 4.3. The housing market in the U.K. is dominated, to a greater extent than that in other European countries, by sales from the existing stock rather than new production (some detailed evidence on this point is given in Chapter Seven). The U.K. does not have the more selective demand subsidies for low income households, or purchasers of new houses,that exist elsewhere. These measures can effectively influence both the distribution and output of housing services.

Policy instruments in the U.K. have boosted demand. France, West Germany and Ireland have used policy instruments which are more directly related to increasing supply. If demand increases are relatively large compared with supply increases, one would expect to observe, over time, larger price than quantity increases. Changes in the price and quantity of housing services, consumed in each of the six countries in the 1970s, were shown in Chapter Three. The large price and small quantity increases in the U.K. were contrasted with the relatively smaller price and larger quantity increases in other countries. The data on housing construction and investment in Chapter Three is also indicative of the relatively low rates of increase in supply in the U.K. The mixture of policy instruments in the U.K. has failed to encourage a high level of housing investment but has encouraged high rates of inflation in the housing market.

---

(1) Value of mortgage interest tax relief in the U.K. at 1976/77 prices: 1969/70 £567 M; 1975/6 £1,100 M. (Source: H.M.S.O. (1977), ibid., Table 8, p.146).

# CHAPTER FIVE

# RENT DETERMINATION POLICIES

Contents


| | | Page |
|---|---|---|
| 5.1 | Introduction | 193 |
| 5.2 | Rent controls and rent determination | 194 |
| 5.3 | Rents, prices, building costs and incomes | 204 |
| 5.4 | The alleged effects of rent controls and the problems of testing the propositions | 212 |
| 5.5 | Defining the private rented sector | 214 |
| 5.6 | Subsidies to the private rented sector | 218 |
| 5.7 | Stock and production : The size of the private rented sector | 222 |
| 5.8 | Demolition and transfers of property from the private rented sector | 232 |
| 5.9 | Rent controls and the size of the private rented sector | 234 |
| 5.10 | 'Rent-Gaps' : variations in rents within the stock | 238 |
| 5.11 | Conclusions | 261 |
| 5.12 | Appendix : Rented housing stock : statistics | 266 |


List of Tables


| | | |
|---|---|---|
| Table 5.1 | Prices, Rents and Building Costs 1938-81 | 205 |
| Table 5.2 | Major sub-divisions of 'Private rented and other' tenures sector, England and Wales, 1976 | 217 |
| Table 5.3 | Government regulation of private rented housing, 1965 | 218 |
| Table 5.4 | Government assistance for private rented housing, 1965 | 219 |

List of Tables (cont.) Page


Table 5.5 Dwellings completed by type of investor Denmark 226

Table 5.6 Dwellings completed by type of investor France 226

Table 5.7 Dwellings completed by type of Investor West Germany 226

Table 5.8 Dwellings completed by type of investor Ireland 227

Table 5.9 Dwellings completed by type of investor Netherlands 227

Table 5.10 Dwellings completed by type of investor U.K. 227

Table 5.11 Production of dwellings by tenure status: The Netherlands 228

Table 5.12 Age structure of the privately rented stock: The Netherlands, 1975 229

Table 5.13 Government loans for rented housing : France 1970-76 230

Table 5.14 Components of change in the 'Private rented and other' sector, England and Wales, 1960-75 233

Table 5.15 Denmark: Average rents per year, in Kroner, of private housing with central heating, 1976 239

Table 5.16 Denmark: Average rents per year, in Kroner, of non-profit housing with central heating, 1976 239

Table 5.17 Denmark: Non-profit housing rents and age of dwellings, 1979 240

Table 5.18 The Netherlands: Rents and Age of Dwellings 1978 241

Table 5.19 Rents of Dwellings rented from private landlords and local authorities, England and Wales, 1973 241

Page

5.20 Average rents for selected dwelling types, April 1976, England and Wales 242

## List of Figures

Figure 5.1 Rents compared with consumer prices 1949-1963 206

Figure 5.2 Rents compared with consumer prices 1964-1981 207

Figure 5.3 Rents compared with building costs 1949-1963 209

Figure 5.4 Rents compared with building costs 1964-1981 210

Figure 5.5 The rent-gap with a production target, the market for new accommodation to rent 245

Figure 5.6 The rent-gap without a production target, the market for new accommodation to rent. 249

## 5.1 Introduction

This chapter examines attempts by governments to influence both the general level of rents and the distribution of rents with respect to different types of rented property. It emphasises two important aspects of policy with respect to the rented sector: (a) the relationship between rent controls and the decline of the private rented sector in different countries and (b) the 'rent-gaps' between older accommodation with low rents and newer accommodation with relatively high rents.

There will be an examination of the proposition that rent controls are the principal cause of the decline of the private rented sector in the countries examined. The causes and consequences of rent-gaps will be examined as will the various attempts to reduce rent-gaps. There will be an attempt to draw conclusions about the relationship between the aims of rent determination policies and the consequences of governments' attempts to influence the level and pattern of rents.

The methods by which rents are determined in the private and public components of the rented housing sector will be considered. The distinction between the private- and public-rented sector is clearer in the U.K. and Ireland than it is in the other countries where similar subsidies and consequent rent determination criteria have applied to housing irrespective of whether the landlord is a 'non-profit' housing association or a private individual. It will be shown that controls on rent levels have been exercised in each of the countries and that the rented sector is declining but this cannot be explained simply as a consequence of rent controls.

A significant aspect of rent determination policies in many European countries has been not only the general level of rents but the variations in rent levels with the type of accommodation. A major concern in each country, other than the U.K. and Ireland, has been the problem of gaps between the low rents of older, and high rents of newer accommodation. These rent-gaps have existed in both the private and 'non-profit' or public parts of the rented sector, and have meant that properties of similar quality but of different age have widely different rents. This, as will be shown, has important implications both for the equitable use of the stock and the efficiency of supply.(1)

## 5.2 Rent controls and rent determination

As indicated in Chapter Four, governments influence rents directly by means of laws which set rents or limit rent increases according to a particular formula or they can act in a more indirect fashion, demanding a particular rent formula as a condition of subsidy. Both methods have been used extensively in Europe. The government's influence on rent levels has been considerable in each country at least since the Second World War. It will be convenient to summarise the controls country by country.

### (i) West Germany

A shortage of accommodation and fears of exploitation of tenants led to state controls on rents in the First World War. The National Rent Act of 1922 formulated a system of control

---

(1) Temporary limits on rent increases have occasionally been introduced in some countries. An example is the United Kingdom in 1974 as part of an 'anti-inflation' package which included more general prices and incomes controls. As these measures have been essentially associated with 'non-housing' objectives they are not considered here.

which prevented any increases in rents on the pre-1914 stock without government approval.

All rents were frozen in 1936. Controls were gradually eased after the Second World War. Housing Acts in 1950 and 1953 relaxed the restrictions on privately financed housing (i.e. housing for which the government had not issued loans) but a rigid system of controls remained for all housing built before 20 June 1948. New privately financed housing was not subject to controls after 1953. Limited increases on the older stock were allowed under legislation passed in 1954 and 1955 but rents for much of the pre-war stock remained very low until the more substantial measures for decontrol were introduced by the 1960 Rent Act. The Act provided for a move towards free market rents through decontrol by area. In each municipality the housing shortage was calculated with the aid of a formula which related the number of households to the number of dwellings. Once the crude 'shortage' (measured by the number of households minus the number of dwellings expressed as a percentage of the dwelling stock in the area) fell below 3 per cent controls were abolished. By 1966 only Munich, Hamburg, and West Berlin retained old style controls and by 1971 decontrol had been declared in these cities.

In 1971, however, policy changed. The government responded to pressure for new rent controls. The Tenancy Protection Act of 1971 introduced new security of tenure measures and it limited rent increases for all unsubsidised privately-financed rented housing. These limitations apply irrespective

of when the housing was built. Initial rents are determined freely by landlords and tenants. Subsequent increases in rent can only be enforced in relation to (1) Increases in operating costs or interest charges, (2) Improvement expenditure or (3) Evidence of comparable local units fetching higher rents.

Subsidised housing is subject to maximum rents per square metre. These vary with construction costs and the time of construction. The aim is to give an 'adequate' but not 'excessive' rate of return on investment, but these terms are not defined.(1)

(ii) The Netherlands

The occupying German forces introduced rent controls in 1940 and a decree to prevent eviction in 1941. Rents were frozen at 1940 levels until the Rent Act of 1951 raised the rents of pre-1940 dwellings by 15 per cent. Post-1940 dwellings which were not directly subsidised were not subject to controls. A series of acts in the 1950s and 1960s raised rents on pre-1940 housing and allowed increases for subsidised post-war housing which was subjected to rent regulations.

In 1967 rent decontrol by area began, with controls being lifted where the crude surplus (dwellings minus households as a percentage of dwellings) was 1.5 per cent or more.

In the liberalised areas rents became freely negotiable,

---

(1) See, Centre For Environmental Studies (1979A), 'Private rented housing in West Germany', January. Draft Report (Unpublished).

except where the dwellings were subsidised, in which case the government continued to set cost-related rents.

From 1971 the government prescribed annual percentage increases in controlled rents. The increases depended on the quality of the property as determined by a points system.

In 1975 newly built subsidised non-profit and private rented housing was subject to a system of 'dynamic cost price rents' (d.c.p.r.) which were designed to give a 'reasonable' return on investment over time. The rate of return is lower in the early years of a project, compared with a commercial rate of return, but the rate increases (as a proportion of initial capital invested) as time goes by.

In 1979 a new system to control rent increases on all rented properties was introduced. This is the 'Huurpryzenwet Woonruimte 1979. Under this legislation parliament decides on a nominal rate of rent increase each year for all properties. The rate was 5 per cent in 1979. When individual landlords and tenants agree to accept this figure this is the rent increase. If tenants object they can appeal to the Rent Commissioners on the basis of a system of 'negative points' and landlords can appeal on the basis of a system of 'positive points'. These points can raise or lower the rent increase in relation to the nominal rate and are awarded for the presence or absence of given facilities. The maximum increase is the nominal rate plus 4 per cent. The system is overseen by the "Wet op de Huurcommissies" (Rent Commissioners). Booklets are published by the government, which

set out guidelines for determining the points value of dwellings. Subsidised landlords (since 1975 mainly the non-profit associations) receive the difference between the 'points system rent' and the d.c.p.r. as a direct subsidy to ensure that their income is still as determined by the d.c.p.r. system.

The Dutch process of rent determination has been subjected to many changes in recent years resulting in much uncertainty. In September 1980, a new set of proposals were announced which set the nominal-increase in rents at 7 per cent and allows for amounts above and below this rate to be in guilders rather than percentages. There is no maximum increase under these proposals.

(iii) Denmark

Rent controls were introduced for privately rented accommodation in 1939. The initial control was over pre-1939 property but was extended in 1951 to property built after 1939. From 1955 onwards the controls were gradually eased and in the 1950s and 1960s landlords were allowed percentage increases related to rising costs. In 1966 the system of percentage increases was abandoned in favour of assessed rents which were set at 'reasonable' levels which were intended to reflect hypothetical free market rents. Rents were raised to the assessed levels over an eight year period. By 1974 private sector rents had risen by about 40 per cent and non profit rents by 20 per cent on average.

Rent legislation in 1974 confined rent control to municipalities with over 20,000 inhabitants and raised rents on the pre-1950 stock by applying 'economic rents' to this property. These are intended to cover running costs and a suitable yield on investment. This has been interpreted as 7 per cent of the official valuation of the dwelling. (There are periodic revaluations after the inspection of properties and given percentage increases in the interim). Non-profit associations have to set rents related to the historic costs of particular developments. These cost-related rents are a condition of subsidy. Rent controls in the private sector now apply only in the larger settlements and cover about 50 per cent of the private rented stock.

(iv) France

Rents in France have been subject to extensive controls since 1914. At the end of 1947, there were 119 separate laws or regulations governing rents. Landlords were, basically, allowed to charge 1.7 times the 1939 rent, although prices were fourteen times higher.

Rents in France were very low in the 1940s. In January 1949 rent represented an average of only 1.5 per cent of the family budget for a family of four, with one earner, living in the Paris region.(1)

The present system of control is based on the Law of 1st September 1949. New construction is exempt from controls.

---

(1) Duclaud-Williams, R., (1978), 'The Politics of housing in Britain and France', London, Heinemann, p.34.

The basis of the control mechanism is a rental value per square metre which depends on the quality and location of the dwelling. This value is fixed by government. For each dwelling a 'corrected surface area' (surface corrigée) is established. This represents the size and quality of the dwelling. Prescribed facilities are considered as equivalent to a given floor area. Rental values per square metre are multiplied by the surface corrigée to give the maximum rent or 'valeur locative'. The valeur locatives have been regularly increased as the rents per square metre have been raised.

Gradual decontrol has been underway since 1959. Various methods have been used. Rental housing is subject to an elaborate classification system based on size, amenity and location. From 1959 there was decontrol by vacant possession in communes with populations of less than 10,000. Since 1969 a process of decontrol by type of property, starting with the most expensive, has been in operation. The size of commune covered by vacant-possession-decontrol has been periodically raised and lists of towns in which decontrol applies henceforth have been published from time to time.

Now all large towns are covered by decrees which have enforced vacant possession decontrol. A further method of decontrol is by a decree which frees all property in a locality from control immediately and affects all tenants - without landlords having to wait for vacant possession. Such decrees have occasionally been used for smaller settlements. Six million dwellings were originally subject to the 1948 Act. The figure had fallen to

3.8 million in 1966, 1.4 million in 1970, and 1.1 million in 1975.

Thus, in 1975 16 per cent of the rented stock was subject to the direct controls of the 1948 Act. A further 6 per cent of the rental stock which had been built since 1950 with the aid of subsidies was, as a consequence, subject to rent ceilings. The non-profit H.L.M. housing constituted 28 per cent of the rented stock. This is subject to government determined maximum and minimum rents per square metre. These limits vary with the type and quality of accommodation and with location. The remaining 50 per cent of rented accommodation was not subject to any sort of rent control. This uncontrolled sector consists of pre-war accommodation in the decontrolled areas and post-war rented housing built without subsidies. Tenants of such accommodation usually have written leases with a provision for three months security of tenure.

(v) Ireland

In the private rented sector some rents are controlled and others are left to market forces. Dwellings subject to control are those unfurnished lettings built before 1941 with rateable values below a certain limit. Controlled rents may not exceed the lawful rent.

Lawful rent = 'basic rent' + 'lawful additions'.

Basic rent = market rent at the time the dwelling was first subject to control.

Lawful additions = allowances for expenditure on repairs, improvements and rates.

Some council tenants pay 'differential rents' and some pay 'fixed rents'. The latter apply mainly to older dwellings since all new lettings made after April 1967 and many prior to that in certain areas are let on 'differential rents'.(1) In 1975, about 77 per cent of local authority dwellings were let on differential rents. In such cases the rent paid is determined by reference to the 'assessable income' of the household. This is the post tax income of the principal earner in the household (excluding overtime earnings, shift allowances and bonus payments), a further deduction for each child and an allowance for other elements such as subsidiary income earners. Up to one seventh of 'assessable income' is payable as rent. Rent paid cannot, however, exceed a 'maximum rent'. The 'maximum rent' for a dwelling is set by the local authority according to the cost of providing accommodation at current prices with some downward adjustment for older dwellings.

(vi) <u>United Kingdom</u>

Rent controls were introduced as a temporary measure in 1915 but made 'permanent' in 1919 for all property built before April of that year. New property was exempt. Some cost-related increases were allowed in the 1920s and 1930s but the 1939 Rent Act applied controls to all but a small proportion of the most expensive properties. Rents were frozen at 1939 levels. Controls applied to properties built after 1939 as well as before. Rents on new property could not be raised. The Housing Repairs and Rents Act of 1954 excluded new dwellings from control and allowed limited rent increases subject to

---

(1) See, National Economic and Social Council, Dublin (1976), 'Report on housing subsidies', p.31.

proof of expenditure on repairs. The 1957 Rent Act introduced block decontrol for properties with rateable values of £40 and above in London and £30 elsewhere. (This decontrolled about 0.4 million out of 4.2 million dwellings rented unfurnished from private landlords). Outside these limits, decontrol was by vacant possession. The maximum rents for controlled properties was twice the 1939 rent. Controls were relaxed but not completely removed in the period 1957 to 1965.

The 1965 Rent Act introduced the concept of 'fair rent' which allowed tenants and landlords to apply to a Rent Officer for a rent which reflected the 'age, character, locality and state of repair of the dwelling'. Fair rents were intended to give landlords a reasonable return on capital equal to the market rent in long run equilibrium with any short run scarcity element removed. Properties still subject to 1957 Rent Act control could be transferred to regulated tenancies (with 'fair rents') under the 1969 Rent Act if they 'were in good condition with all the basic amenities'.

The 1972 Rent Act extended transfer from controlled to regulated tenancies by varying the rateable value bands of the properties subject to control; this was regardless of the condition of the property. This latter method of decontrol was halted in 1974. The 1974 Rent Act extended the concept of fair rents to furnished as well as unfurnished properties. Tenants of furnished properties had previously had only the limited protection of the Rent Tribunal procedure established in 1946. The 1980 Housing Act finally converted all remaining controlled tenancies to the higher rent regulated tenancies.

Local authorities have some, theoretical, discretion over the pattern of their rents and the contribution to housing revenue accounts from rate fund income. Councils are required to make charges which are 'reasonable' with respect to the interests of tenants and ratepayers. The level of council house rents is, however, influenced to a very large degree by central government, and the 1980 Housing Act gives central government the power to vary Exchequer contributions to local budgets according to assumed rental increases and changes in costs. This, together with other measures which set rate support grants, effectively gives central government a great deal of influence over public sector rent levels.

## 5.3 Rents, prices, building costs and incomes

Given the large variations in rent levels that exist within countries as a result of controls and varying means of determining rents an 'average rent' figure is of limited value. However, indices based on such figures provide some indication of the general movement in rents over time and allow some basis for international comparisons. The U.N. Annual Bulletins of Housing and Building Statistics for Europe publish a rent index for each country based on information from national governments. This index covers 'private', 'public', 'subsidised' and 'non-subsidised' rented accommodation. With the exception of Denmark, where there are no U.N. figures published for the years 1958 to 1962, there is a continuous series from 1948 onwards. In Table 5.1 this information has been converted to a common base (1963=100) and similarly compiled information on consumer prices and building costs has been added. Rents are compared with consumer prices to give the indices of 'real rents' shown in Figures 5.1 and 5.2 and rents are compared with building

Table 5.1: Prices, Rents and Building Costs 1938-81

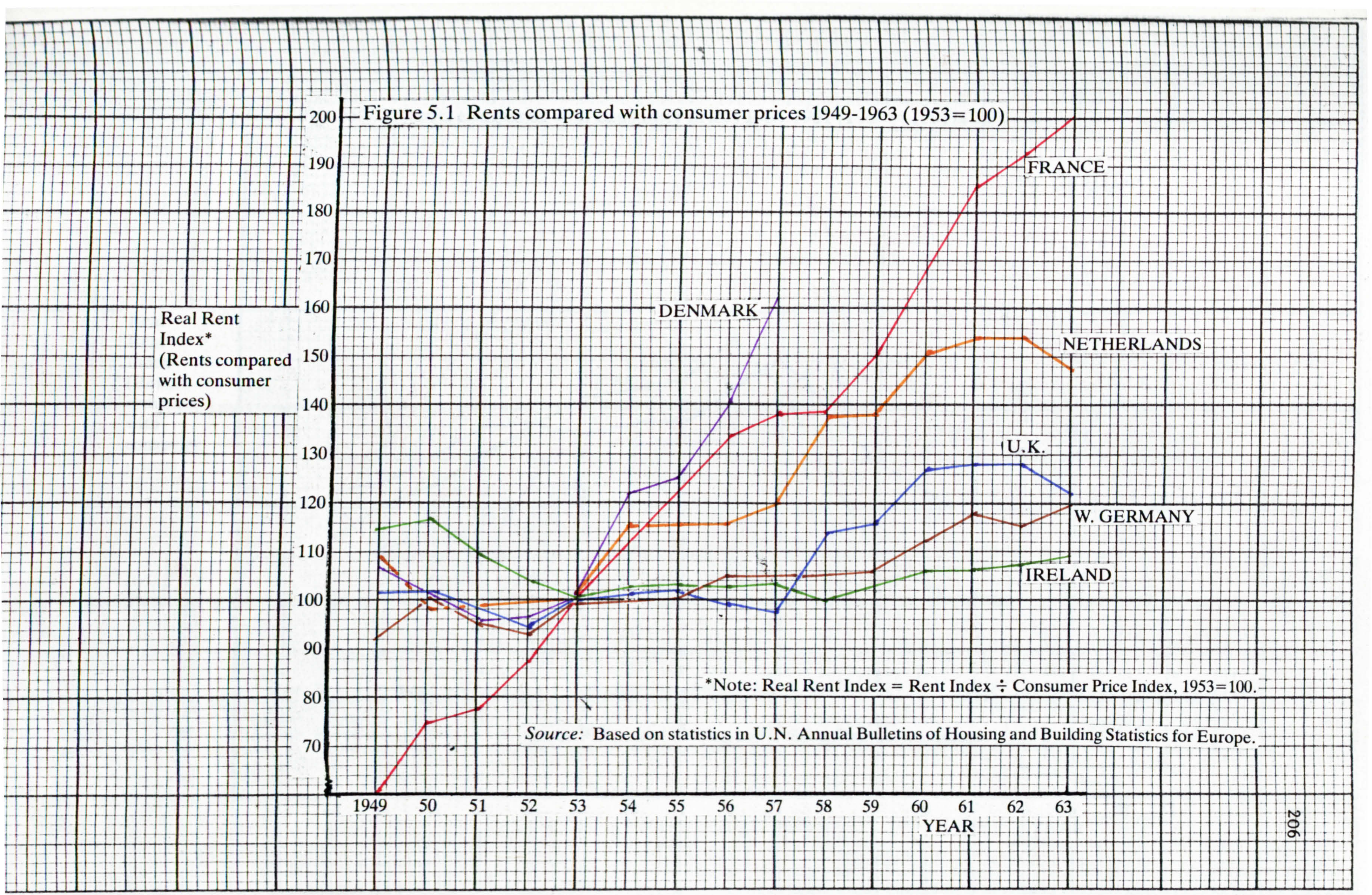
| | FRANCE | | | IRELAND | | | NETHERLANDS | | | U.K. | | | W. GERMANY | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | P | R | BC | P | R | BC | P | R | BC | P | R | BC | P | R | BC |
| 1938 | 3 | 0.3 | | 32 | | | 27 | 46 | | 32 | | | 46 | 61 | |
| 1948 | 41 | 9.4 | | 62 | 63 | 64 | 60 | 46 | 66 | 63 | 50 | | 83 | 64 | |
| 1949 | 47 | 14 | | 62 | 66 | 63 | 64 | 46 | 60 | 64 | 51 | 64 | 82 | 64 | 54 |
| 1950 | 52 | 19 | | 62 | 67 | 70 | 70 | 46 | 55 | 65 | 52 | 65 | 76 | 64 | 51 |
| 1951 | 60 | 23 | | 68 | 68 | 73 | 79 | 53 | 60 | 71 | 54 | 75 | 82 | 65 | 59 |
| 1952 | 67 | 29 | | 74 | 71 | 79 | 79 | 53 | 63 | 75 | 56 | 81 | 84 | 66 | 63 |
| 1953 | 66 | 33 | 60 | 78 | 71 | 79 | 79 | 53 | 61 | 77 | 60 | 79 | 82 | 68 | 61 |
| 1954 | 65 | 37 | 59 | 78 | 73 | 77 | 82 | 63 | 64 | 78 | 61 | 79 | 82 | 68 | 61 |
| 1955 | 66 | 40 | 62 | 80 | 76 | 79 | 83 | 64 | 71 | 81 | 63 | 84 | 84 | 70 | 66 |
| 1956 | 67 | 45 | 69 | 83 | 78 | 84 | 85 | 67 | 78 | 85 | 65 | 88 | 85 | 75 | 69 |
| 1957 | 70 | 58 | 76 | 87 | 82 | 88 | 89 | 72 | 85 | 87 | 71 | 90 | 87 | 76 | 72 |
| 1968 | 80 | 55 | 83 | 91 | 83 | 90 | 90 | 85 | 86 | 91 | 80 | 91 | 88 | 77 | 71 |
| 1959 | 85 | 63 | 85 | 90 | 86 | 87 | 90 | 85 | 84 | 91 | 84 | 90 | 89 | 79 | 75 |
| 1960 | 88 | 74 | 85 | 91 | 88 | 90 | 92 | 94 | 86 | 91 | 86 | 90 | 90 | 84 | 80 |
| 1961 | 91 | 84 | 87 | 94 | 91 | 94 | 94 | 97 | 88 | 95 | 90 | 94 | 92 | 91 | 86 |
| 1962 | 95 | 90 | 91 | 98 | 96 | 98 | 96 | 97 | 94 | 99 | 95 | 97 | 97 | 94 | 94 |
| 1963 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1964 | 103 | 105 | 107 | 107 | 105 | 107 | 106 | 105 | 109 | 103 | 105 | 102 | 102 | 106 | 105 |
| 1965 | 106 | 115 | 113 | 112 | 112 | 111 | 111 | 110 | 114 | 103 | 111 | 107 | 105 | 112 | 109 |
| 1966 | 108 | 125 | 116 | 115 | 119 | 116 | 117 | 119 | 120 | 112 | 119 | 111 | 108 | 123 | 113 |
| 1967 | 111 | 139 | 118 | 119 | 126 | 120 | 121 | 125 | 120 | 114 | 124 | 113 | 109 | 131 | 110 |
| 1968 | 116 | 150 | 123 | 124 | 135 | 125 | 124 | 132 | 128 | 119 | 130 | 118 | 110 | 139 | 115 |
| 1969 | 123 | 164 | 130 | 133 | 149 | 139 | 133 | 142 | 144 | 126 | 136 | 123 | 112 | 149 | 121 |
| 1970 | 129 | 176 | 134 | 144 | 163 | 154 | 139 | 150 | 159 | 134 | 146 | 131 | 116 | 155 | 140 |
| 1971 | 137 | 186 | 141 | 157 | 179 | | 149 | 163 | 181 | 146 | 159 | 140 | 122 | 164 | 155 |
| 1972 | 144 | 197 | 150 | 170 | 200 | 187 | 161 | 178 | 195 | 157 | 177 | 156 | 129 | 175 | 166 |
| 1973 | 155 | 213 | 162 | 190 | 215 | 212 | 174 | 196 | 218 | 170 | 197 | 192 | 138 | 184 | 178 |
| 1974 | 177 | 228 | | 223 | 233 | 261 | 190 | 213 | 248 | 198 | 220 | 235 | 147 | 194 | 190 |
| 1975 | 197 | 253 | 213 | 270 | 259 | 337 | 210 | 228 | 267 | 248 | 261 | 272 | 157 | 206 | 195 |
| 1976 | 215 | 282 | 237 | 321 | 297 | 397 | 228 | 255 | 291 | 291 | 298 | 331 | 164 | 217 | 201 |
| 1977 | 236 | 308 | 265 | 366 | 323 | 462 | 243 | 274 | 318 | 338 | 336 | 341 | 170 | 224 | 211 |
| 1978 | 258 | 334 | 282 | 397 | 289 | 508 | 251 | 289 | 347 | 366 | 361 | 389 | 174 | 230 | 224 |
| 1979 | 286 | 371 | 314 | 443 | 320 | 588 | 261 | 310 | 382 | 410 | 435 | 471 | 182 | 239 | 242 |
| 1980 | 325 | 421 | 356 | 526 | 376 | 707 | 278 | 333 | 413 | 478 | 560 | 567 | 191 | 251 | 270 |
| 1981 | 369 | 475 | 389 | | | | 352 | 358 | | 494 | 593 | | 203 | 262 | 286 |

P = Consumer Price Index; R = Rent Index; BC = Building Cost Index.

Source: U.N. Annual Bulletins of Housing and Building Statistics for Europe, 1957, 1963, 1967, 1970, 1974, 1977, 1978, 1982.

Note: Denmark not included for reasons given in text
see Table 3.3 for Danish figures from 1963 onwards.

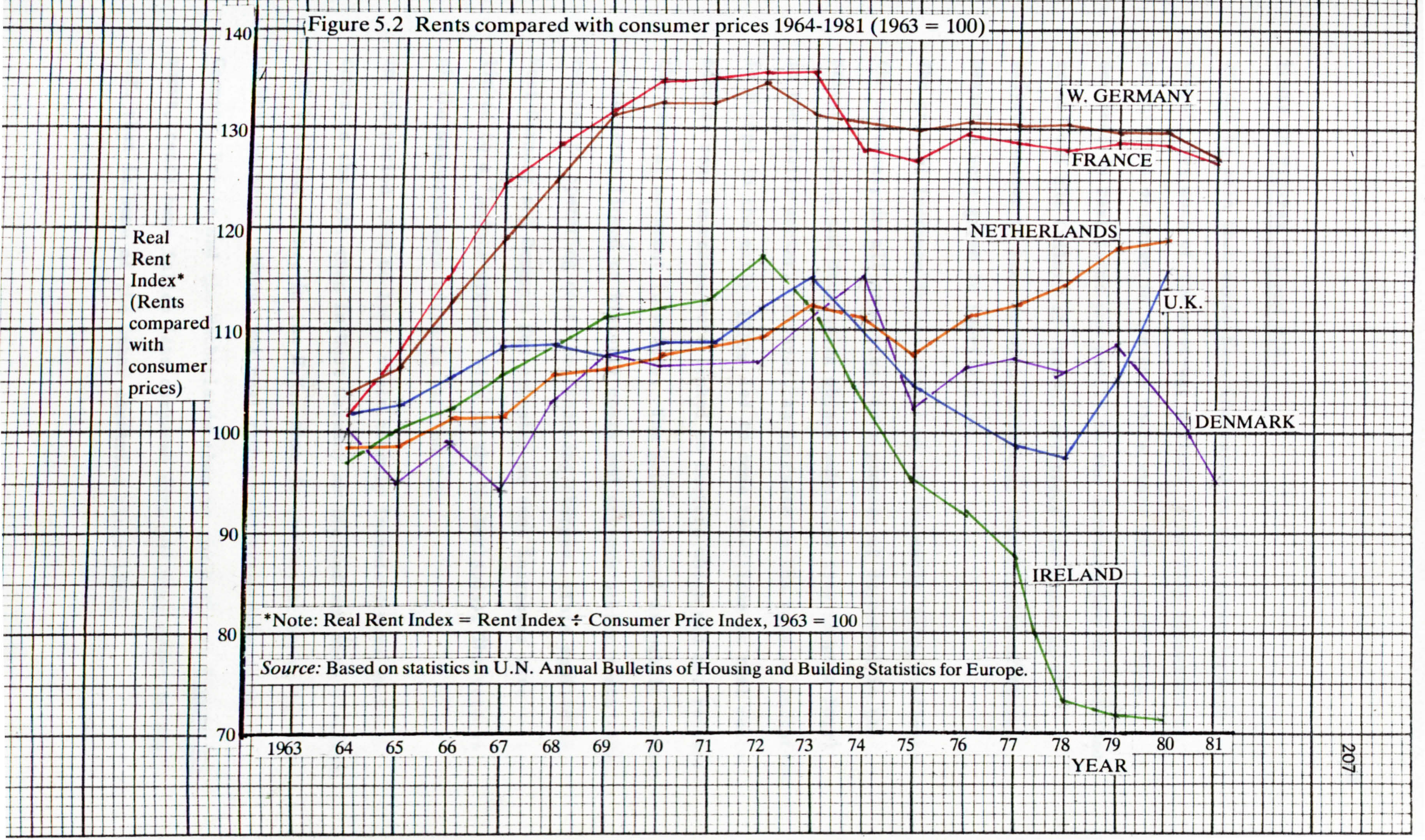
Figure 5.1 Rents compared with consumer prices 1949-1963 (1953=100)




*Note: Real Rent Index = Rent Index ÷ Consumer Price Index, 1953=100.

*Source:* Based on statistics in U.N. Annual Bulletins of Housing and Building Statistics for Europe.

Figure 5.2 Rents compared with consumer prices 1964-1981 (1963 = 100)




*Note: Real Rent Index = Rent Index ÷ Consumer Price Index, 1963 = 100

*Source:* Based on statistics in U.N. Annual Bulletins of Housing and Building Statistics for Europe.

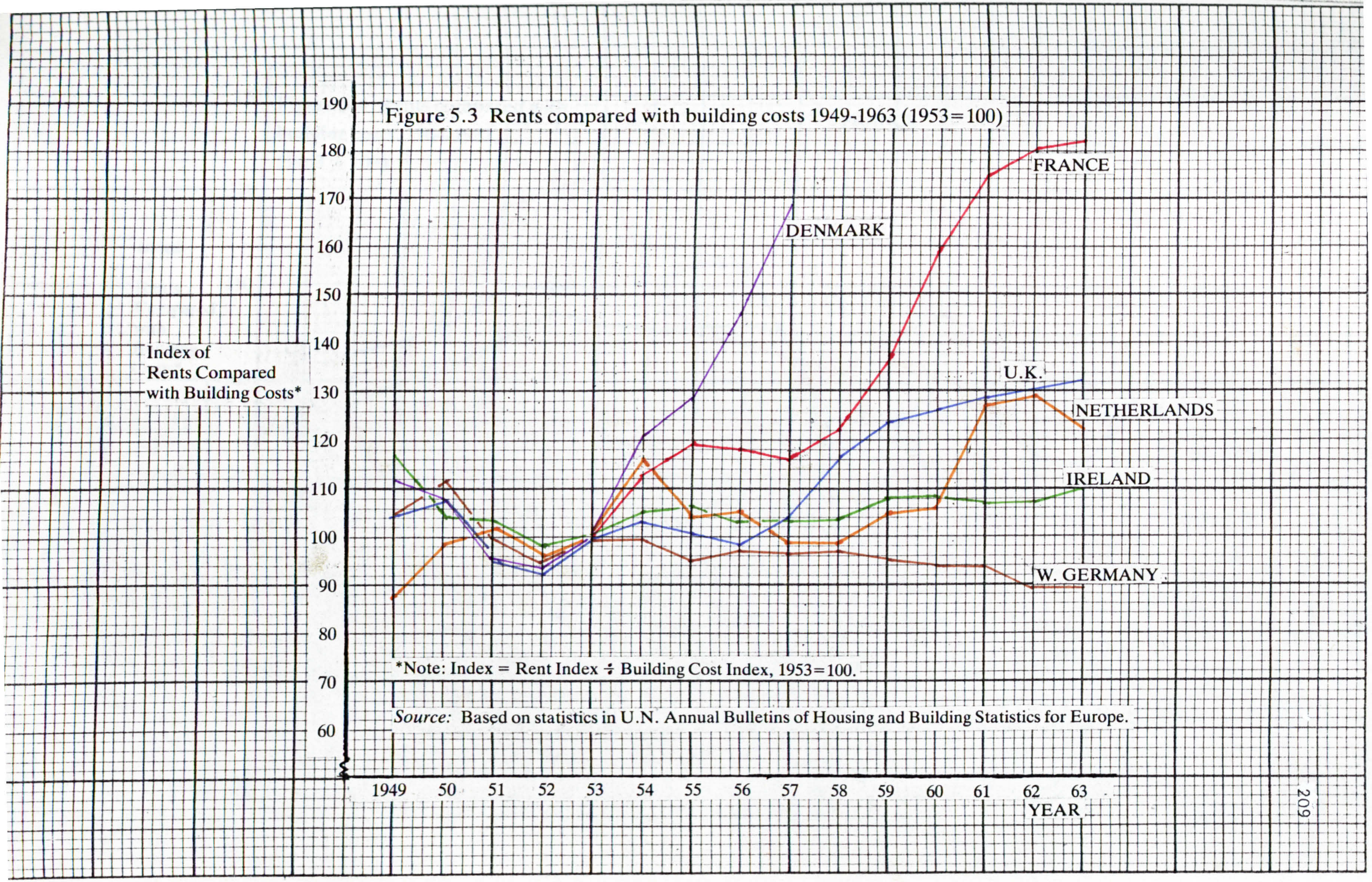
costs in Figures 5.3 and 5.4.

It can be seen that rents have increased in real terms in each country for much of the post-war period. A notable exception in to this has occurred in Ireland where, since 1972, rents have declined in real terms due partly to the introduction of 'assessed rents' and the failure of 'lawful additions' to rents in the private sector to keep up with inflation, (the details of these measures were given in Section 5.2).

The gradual increase in real rents up to the early 1970s reflects the movement, in all countries, to a process of decontrol in the private sector and decreasing object subsidies (see Chapter Four) in the public sector. However, an increase in the rate of inflation in Europe in the early 1970s led to some reductions in real rents because rent increases were linked to factors which did not reflect the general movement in prices. The general level of public sector rents were linked to historic costs and private sector rents were related to operating costs or financing charges. (This applied in West Germany and Denmark for example) or rent increases were linked to a 'points system' (as in the Netherlands). The details of the measures were given in section 5.2

In the period 1949 to 1963, rents clearly increased more in real terms in the U.K. than in West Germany or Ireland and more compared with building costs, in the U.K., than in the Netherlands, Ireland or West Germany. Since 1964 real rents have risen more in West Germany, France and the Netherlands than in the U.K. As Figure 5.4 shows, rents have fallen less compared with building costs in the U.K. than in some of the other countries since 1964.

Figure 5.3 Rents compared with building costs 1949-1963 (1953=100)




*Note: Index = Rent Index ÷ Building Cost Index, 1953=100.

*Source:* Based on statistics in U.N. Annual Bulletins of Housing and Building Statistics for Europe.

Figure 5.4 Rents compared with building costs, 1964-1981 (1963 = 100)

*Note: Index = Rent Index ÷ Building Cost Index, 1963 = 100.

*Source:* Based on statistics in U.N. Annual Bulletins of Housing and Building Statistics for Europe.

It would be possible, taking a somewhat superficial approach, to suggest that there are some associations between the movements in real rents and the changes in legislation noted in section 5.2. One could, for example, point to the increase in rents in West Germany after the passage of the 1960 rent liberalisation legislation and the 'levelling-off' of real rents since the Tenancy Protection Act of 1971; or one could cite the increase in the U.K. after the passage of the 1957 Act. The large increases in real rents in France are associated with the successive legislative measures by which governments have attempted to increase rents in order to move away from the very low rents which existed in both the private rented and H.L.M. sectors at the end of the Second World War. There are also, however, some movements in real rents which are in the opposite direction to that which might be expected. The reductions, after 1974, in Denmark, for example, followed measures which were designed to ease rent controls.

The changes in rent levels are associated with a complex interaction of many factors, including legislation and subsidies which have influenced public sector rents, and to try and explain the observations in Figures 5.1 and 5.2 by referring simply to rent controls would be to make a spurious connection. This point will be developed in section 5.9.

Some information about the relationship between incomes and rents was presented in Chapter Three. The figures in Table 3.5 suggest that rents have fallen compared with incomes in each country in recent years, although the fall has been less in the U.K. than in all the other countries, except West Germany, and since 1979 rents have increased considerably compared with incomes in the U.K.

As a proportion of household consumption, gross rents were higher in the 1970s, in the U.K. than in all the other countries except Denmark (See Table 3.7). The figures are, however, influenced by varying proportions of income spent on owner-occupation because of the inclusion of imputed rents in the calculation. Data presented in Chapter Six (Appendix : Table 6.6) suggests that the relationship between average income and the average rent, paid by tenants before the receipt of any housing allowance, was about the same in the U.K. and the Netherlands but average rent was a much higher proportion of average income in Denmark.

## 5.4 The alleged effects of rent controls and the problems of testing the propositions.

Rent controls have been heavily criticised by some economists. According to one economist, "The alleged effects of rent control may be summarised as creating and perpetuating economic shortage of rented housing, encouraging tenant immobility, denying consumer preferences, fostering the dilapidation of housing, deterring new letting and thus conflicting with the aims of housing policy".(1) Such allegations have been made in relation to many of the countries in this study. A report which comments on the effects of rent controls in England and Wales, West Germany, France and the Netherlands concludes that rent control is likely to have detrimental effects on the supply and maintenance of rented housing particularly for lower income tenants. It is argued that it "helps many families who are ..... least in need of help. It therefore tends to be an inequitable and inefficient form of subsidy".(2) A report from

---

(1) Stafford, D.C. (1978), 'The economics of housing policy', London, Croom Helm, p.104.

(2) Brenner, J.F. and Franklin, H.M.(1977), 'Rent control in North America and Four European Countries', The Potomac Institute, Washington, D.C.

Ireland argues that landlords of controlled dwellings have an incentive to let their property deteriorate through lack of maintenance expenditure because deterioration may "hasten the gaining of vacant possession".(1) Such claims remain, however, mainly allegations for there is very little detailed evidence about the results of rent controls or the consequences of decontrol.

Many British economists and pòliticians attribute the historic decline of the private rented sector in the U.K. to rent controls. We therefore ask whether rental controls are a significant cause of decline in the U.K. and in other countries. If one could compare the fortunes of the private rented sectors in different countries and chart the changes in rent restrictions one would have some information that would help to clarify the strength of this proposition. If evidence was available about the relationship between the degree of rent control and the size of the private rented sector over time one could ascertain whether countries with the least controlled markets in rented accommodation had the least decline in the size of the sector. This relationship in itself would, of course, not decisively prove a cause and effect relationship but would yield an essential piece of information that could, ideally, in the presence of information about other variables, be incorporated into a model of the determinants of the size of the private rented sector.

Systematic study of the effects of rent controls is, however, difficult. Four sets of reasons for this are apparent:-

---

(1) National Economic and Social Council, Dublin (1976), op. cit. p. 53.

(a) Defining the 'private rented sector' in some countries can be difficult.

(b) In four of the countries of this study, rent controls have, at some times, been accompanied by subsidies to private landlords. Disentangling the relative effects of controls and subsidies would be difficult.

(c) The limited comparative time series data on the tenure structure of the housing stock and housing production do not permit straightforward identification of how much private rented accommodation existed and was being built in a given time period.

(d) Factors other than rent control (especially slum clearance - programmes and encouragements to owner-occupation) have, in each country, reduced the supply of rented accommodation below what it would otherwise have been. These effects are difficult to separate from the effects of rent controls. In short, the ceteris paribus problem is much in evidence.

The next four sections elaborate on these points. These sections (1) emphasise the difficulty of testing precisely the proposition that rent controls are the principal cause of the decline of the private rented sector, and (2) give an indication of the diverse factors that have had some influence on the size of this sector in different countries.

## 5.5 Defining the private rented sector

In Ireland the private rented sector is clearly distinguished from the public or local authority sector, direct subsidies for building rented accommodation being confined to the latter in much the same

way as in the U.K. In Denmark the non-profit sector has consisted mainly of property built and managed by housing associations and this sector is fairly easily separated from the remaining private rented sector. In France, West Germany and the Netherlands, however, there is not a clearly distinguished private rented sector for which readily identifiable statistics are available.

It is possible to identify four types of rented housing in France[1] :-

(1) Rent controlled sector: mainly pre-1948 dwellings owned by individuals.

(2) Regulated section: mainly Habitation a Loyer Modere (H.L.M.).

(3) Private subsidised sector.

(4) Free sector: post-war rented housing not subject to controls.

A Centre for Environmental Studies (C.E.S.) report[2] considers all rented housing not owned by H.L.M.s to be 'the private rented sector' . Duclaud-Williams[3] is less clear on the 'private/ public' sector division. He produces figures for a 'semi-public subsidised sector'. This is basically the same as category (3) above. The difficulty arises because of the existence of a large volume of accommodation which is subsidised and in many cases also financed directly by government loans. This is subject to rent controls and in some cases to government tenant selection criteria but owned by private individuals and companies.

---

(1) See, Brenner, J.F. and Franklin, J.M. (1977), op.cit.

(2) Centre for Environmental Studies (1979B), 'Private rented housing in France: Draft Report', January (Unpublished).

(3) Duclaud-Williams, R. (1978), op.cit. Table VIII.I, pp.148-149.

This is also a problem in West Germany and, given the ownership of similarly subsidised and controlled properties by housing associations, makes a clear distinction between private and public rented housing impossible. Hallett[1], in a study of housing in West Germany, does not identify a 'private rented sector'. Some subsidised housing is rented by private landlords and some of the housing rented by non-profit companies is financed by private capital. A C.E.S. report[2] on private Private Rented Housing in West Germany defines the 'private rented sector for the purpose of this report' as (i) Rented stock built before 1948 and (ii) non-social housing built since 1948. Included in (i) however is much government controlled non-profit housing and (ii) specifically excludes non-profit housing. Category (i) is included in total because official statistics do not identify the 'public' and 'private' components of this stock.

Discussions and statistics on rented housing in the Netherlands[3] tend to distinguish a subsidised from a non-subsidised rental sector. The subsidised sector, however, comprises non-profit housing association dwellings and 'premium dwellings' which are privately owned but built with state subsidies. There are estimates of the proportion of the rental stock owned by private individuals and commercial companies in the Netherlands and use will be made of these in a later section.

From the textbook discussions it might be concluded that the private

---

(1) Hallett, G. (1977), 'Housing and land policies in West Germany and Britain', London, Macmillan, especially pp. 3-39.

(2) Centre for Environmental Studies, (1979A), op.cit.

(3) Ministry of Housing and Physical Planning, The Hague, (1977), 'Current trends in the field of housing, building and planning'.

rented sector can be easily identified in the U.K. In fact, the 'private rented sector' cannot be clearly distinguished in British statistics. As the Technical Volume of the Housing Policy 'Green Paper' points out, Department of the Environment definitions identify a category of housing 'rented from private owners and other tenures' and "although this is commonly referred to as the private rented sector its definition is in fact all dwellings that are neither owner-occupied nor rented from a local housing authority or new town".(1) The components of this sector in England and Wales in 1976 are set out in Table 5.2.

The figures show that in 1976 34 per cent of the oft-called 'private rented' accommodation in England and Wales was not let by private profit-making landlords but by housing associations or it was rented in association with employment.

Table 5.2: Major sub-divisions of 'Private rented and other' tenures sector, England and Wales, 1976.

| | Thousands | Percentage |
|---|---|---|
| Housing associations ..... | 250 | 9.0 |
| Rented with job or business and by virtue of employment ..... | 700 | 25.0 |
| Rented unfurnished from a private landlord | | |
| Controlled..... | 375 | 13.5 |
| Regulated..... | 1,115 | 40.0 |
| Rented furnished (excluding 'tied' accommodation)..... | 350 | 12.5 |
| | 2,790 | |

Source: Housing Policy Technical Volume Part III, 1977, Table IX.I

(1) H.M.S.O. (1977), 'Housing Policy Technical Volume Part III,' Chapter 9. p.61.

Housing associations in other countries are classified as part of the 'non-profit' or 'public' sector. The figures in Table 5.2 were especially estimated for the Housing Policy Review. Statistics for the U.K. are given in the Appendix.

## 5.6 Subsidies to the private rented sector

In West Germany, the Netherlands, France and Denmark a proportion of private landlords have benefited from government loans and subsidies. Some evidence from the Report of the Committee on Housing in Greater London (Milner Holland Report)[1] will be cited and then some more recent information on subsidies will be presented.

Chapter 12 of the Milner Holland Report (Private rented housing in Big Cities: An International Comparison) considered five cities which are of relevance to this study. Although somewhat dated, many of the findings are of lasting significance. Table 5.3 shows that rent control is not a pecularly British phenomena and confirms some of the previous discussion in section 5.2.

---

Table 5.3: Government Regulation of Private Rented Housing, 1965.

| City | Rent control in majority of private rented sector | Date of last general revision of controlled rent levels | Selection of tenants† | Tribunals to regulate or interpret legislation |
|---|---|---|---|---|
| London | Yes | 1957 | No | No |
| Paris | Yes | Every 6 months | Yes | No |
| Copenhagen | Yes | 1962 | Yes | Yes |
| Amsterdam | Yes | 1964 | Yes | Yes |
| Hamburg | Yes | 1960 | Yes | Yes |

† where government has selection criteria or controls densities of occupation.

Source: Committee of Enquiry on Housing in Greater London, 1965, Table 12.4.

---

(1) H.M.S.O. (1965), 'Report of the Committee on housing in Greater London,' Cmnd.2605 (The 'Milner-Holland Report'), Chapter 12.

The Report states "it is clear that in most of the cities examined governments have assumed more comprehensive responsibilities than our own has adopted for regulating and revising rents, for securing the rights of tenants to remain in their accommodation and for controlling the distribution of rented housing".(1) However, as Table 5.4 shows, the controls have been operated alongside subsidies and taxation arrangements which place the landlords at less of a disadvantage in the other cities than in London. The other countries adopted policies of positively encouraging private

Table 5.4: Government assistance for private rented housing, 1965

| (1) City | (2) Loans or subsi- for Private rented housing (i) | (3) Government Grants or loans for improving Private rented housing | (4) Subsidies for selected tenants | (5) Tax exemption for landlord's depreciation funds |
|---|---|---|---|---|
| London | No | Yes | No(ii) | No |
| Paris | Yes | Yes | Yes | Yes |
| Copenhagen | Yes | Yes | Yes | No |
| Amsterdam | Yes | Yes | No | Yes |
| Hamburg | Yes | Yes | Yes | Yes |

(i) "Any loans or subsidies paid for houses built during the past ten years, and still operating in a manner that reduces rents to a level appreciably below that which a "free" market would permit".

(ii) "Excluding payments of rent through National Assistance Board (since most countries have similar provisions)."

Source: Committee of Enquiry on Housing in Greater London, 1965 Table 12.3

rented accommodation in the 1950s and 1960s. As Milner Holland put it "It is clear that governments in most of the other countries we studied have given more encouragement for the building of private

(1) ibid, p.216 1950s and 1960s.

rented housing" and "in this country private landlords and their tenants have not been subsidised, either directly or indirectly, to the extent that they have in other countries".(1) Much the same conclusion would be justified today although a uniform row of 'Yes's' would be inserted in column (4) of Table 5.4 because of rent rebates and allowances in the United Kingdom and 'Individuele huursubsidies' in the Netherlands. The 'Yes' against Copenhagen in column (2) should now be a 'No' for construction loans for private rented accommodation ceased in Denmark in 1958.

Private landlords in West Germany continue to benefit from a considerable range of tax concessions. Land for house building is exempt from the land acquisition tax and landlords of rental units below given size limits are exempt from the property tax for ten years after the initial occupation. A depreciation allowance of 2 per cent of capital costs can be set against tax each year. Landlords can deduct debt charges, maintenance and other expenses plus property taxes from income tax up to the level of the imputed rent of the property.

From 1947 to 1966 private landlords in the Netherlands benefited from lump sum subsidies payable on the completion of new dwellings and they received annual subsidies related to operating costs. Lump sum subsidies were phased out in the period 1960 to 1966, since 1966 only annual subsidies have been paid. These have been reduced considerably since 1975 when dynamic cost price rents (d.c.p.r.) was introduced. Landlords deduct all expenses including

---

(1) ibid, p.215 and p.223.

interest charges and depreciation from gross income. Net income including subsidies is taxed.

The construction of private rented housing in France has been encouraged in the post-war period by loans at low rates of interest and by premiums which reduce interest costs.

In the period 1954-1963 under the 'logecos' programme the measures for promoting privately financed housing construction were particularly generous, so that there were fears in the H.L.M. movement about the competition from these subsidised dwellings. 80 per cent of construction costs could be met from a Credit Foncier loan and capital repayments were suspended for the initial five years of the loan. Premiums of 10F. per sq. metre were payable for twenty years.

The main subsidies are provided by the Prets Speciaux Immediates (PSI) and Prets Immobiliers Conventionnes (PIC) systems which provide low interest loans for property within specific cost and rent limits. Net income from property is subject to income or company taxation. The deductions allowed are such that the treatment of income from letting is "very generous compared with Britain".(1)

In Denmark there are no longer any direct measures to encourage building for private renting. Direct government finance for this purpose ceased in 1958. Landlords can deduct interest payments and depreication in arriving at their taxable incomes.

Neither the construction or the management of private rented housing has been subject to any direct subsidies to builders or landlords in Ireland and the U.K. There has in fact been much discussion of the high levels of taxation to which private landlords are liable in

---

(1) Centre for Environmental Studies (1979B), op. cit.

the U.K. The situation has changed little since A.A. Nevitt (1966) set out the vidence to show that "taxes falling upon rented accommodation are heavy, and .... they are heavier than the taxes falling upon many other types of building. This stems from the fiction in tax law that a 'house' lasts for ever and cannot therefore rank for any 'depreciation' allowances".(1)

The decline of the private rented sector in the U.K., Ireland and Denmark is strongly associated with an increasing subsidy effort towards owner-occupation and a lack of direct subsidies for private rented accommodation. In West Germany, France and the Netherlands, where the size of the private rented stock is larger and there has been relatively more new construction for private renting, there have been substantial subsidies for such construction. However, there has been a reduction in such construction in recent years as subsidies for owner-occupied housing have increased and subsidies for private rented accommodation have fallen.

5.7 Stock and Production: The size of the private rented sector in each country.

A comprehensive set of statistics showing the size of the private rented stock at different points in time, in each country, is not available. There are many different pieces of information which do, however, suggest a general decline in this sector. The detailed data that has been assembled, from many different sources, is set out in the Appendix to this Chapter.

The private rented sector is declining in each country. One report notes that new investment in building for private renting is declining

---

(1) Nevitt, A.A. (1966), 'Housing, taxation, subsidies', London, Nelson, p.54.

everywhere despite rents which are moving increasingly to market levels[1] and another investigation covering England and Wales, West Germany, France and the Netherlands, claims that "New investment in private unsubsidised rented housing is essentially non-existent in all the European countries surveyed, except for luxury housing".[2]

With the exception of West Germany, each country has experienced a steady fall in the proportion of rented housing in the total housing stock in the post-war period. The proportion of housing association and (in the U.K. and Ireland) publicly owned rented accommodation has increased. Privately rented accommodation as a proportion of the stock has fallen.

The position of the private rented sector can also be examined by investigating construction statistics. The U.N. data on housing construction does not distinguish between rented and owner-occupied housing but merely classifies by type of investor. Some of this information is shown in Tables 5.5 to 5.10. Information from other sources mentioned in this Chapter allows some interpretations of these figures and some estimates of the volume of 'private rented' construction have been made. The evidence points to a general decline in the proportion of new building which is for private renting.

There has been a considerable amount of building for private renting in West Germany in the post-war period. It has been estimated that between 1950 and 1974 13.3 million dwellings were built : 4.5 million for owner-occupation and 8.8 million for

---

(1) Centre for Environmental Studies (1979C), 'Private rented housing in Europe and the U.S.A. : Main Report'. (Unpublished).

(2) Brenner, J.F. and Franklin, H.M. (1977), op. cit.

renting; 2.5 million, or about 28 per cent, were built for non-profit housing associations and the remainder for private landlords.(1) About half the rented housing built since 1950 was for 'individuals or married couples'. Thus, a significant amount of investment has been by the small private landlord. Of the 3.7 million 'social' or directly subsidised dwellings built from 1957 to 1974, 1.6 million were built for 'private persons'. A substantial proportion of private rented housing has thus been built with the aid of subsidies. Between 1949 and 1974, about 48 per cent of the dwellings built for the rental sector were directly subsidised. However, in the late 1970s investment in private rented accommodation had slowed down. Production for this sector was at rates of about 100,000 units per annum in the 1950s but only about 20,000 in 1977.(2)

A report from the West German Goverrment in 1977 argued that rents had, in recent years, been insufficient to cover costs and "The fact that occasional investments continued to be made in this sector in spite .....(of this).... may be attributed, in addition to the possibility of incurring losses for fiscal purposes, less to short-term profit considerations and much more to the anticipation that rents would rise in future or to an increase in the value of the apartment building".(3)

It is argued that an unavoidable tail-off in investment activity resulted from competition amongst landlords which pushed down rents

---

(1) Hallett, G. (1977), op. cit. p.14.

(2) Centre for Environmental Studies (1979A), op. cit.

(3) Federal Ministry for Regional Planning, Building and Urban Development (1977), 'Wohngeld und Mietenbericht' (Report on Housing Allowances and Rents),Translation RTS 12383A, British Library August 1981, p.4).

to the point where they were no longer able even to cover fixed costs and "In a market which is generally weak the possibility of incurring losses for fiscal purposes and expected future increases in value are no longer sufficiently attractive to attract investors".(1)

The West German government's 'Current Trends Report' 1979 indicates that there is very little new investment in the private rented sector. It shows that the level of building was slowing down and private investment in housing was becoming concentrated in the owner-occupied sector:"..... the number of dwellings completed in 1978 fell to 368,145, the lowest level since 1964. The bulk of completions involved owner-occupied dwellings. Rented housing (All rented housing) only accounted for 100,546 dwellings or 29.6 per cent of completed housing units."(2)

The Danish housing production statistics make it impossible to distinguish rented from owner-occupied housing. It is clear that "most new dwellings in the rented sector have been non-profit housing in the period 1950-1975".(3) The Danish housing ministry points out that "The great majority of privately built dwellings are owner-occupied".(4) There have been very few projects for

---

(1) ibid.

(2) Federal Ministry for Regional Planning, Building and Urban Development, and Federal Ministry for Economics, Bonn (1979), 'Current trends and policies in the field of housing, building, and planning', p.7.

(3) Federal Ministry for Regional Planning, Building and Urban Development, Bonn, 'Report on Denmark: The Owner Occupation Rate'. Undated and unpublished report prepared for the Federal Ministry by consultants in Denmark (supplied by the Federal Ministry for Regional Planning, Building and Urban Development).

(4) Ministry of Housing and Ministry of the Environment, Copenhagen (1979), 'Current trends and policies in the field of housing, building and planning', p.16.

Table 5.5: Dwellings completed by type of investor (%)

Denmark

| | 1970 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|
| State and Muncipalities | 2.2 | 1.5 | 0.9 | 1.1 | 1.7 | 1.1 | 2.0 |
| Housing Associations | 27.3 | 24.4 | 23.1 | 17.7 | 16.1 | 15.6 | 23.1 |
| Private Persons | 70.5 | 74.1 | 76.0 | 81.2 | 82.2 | 83.3 | 74.8 |
| of which aided | 7.6 | 1.1 | 0.6 | 1.3 | 1.3 | 1.8 | 1.7 |
| unaided | 62.9 | 73.0 | 75.4 | 79.9 | 80.9 | 81.5 | 73.1 |

Source: U.N. Annual Bulletins of Housing and Building Statistics for Europe 1980, 1981.

---

Table 5.6: Dwellings completed by type of investor (%)

France

| | 1970 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|
| State and local authorities | 0.7 | 1.3 | 0.7 | 0.9 | 0.9 | 0.8 |
| H.L.M. | 32.2 | 21.6 | 26.4 | 24.1 | 22.1 | 20.6 |
| Corporations (Private & Public) | 32.1 | 29.6 | 27.4 | 29.2 | 26.6 | 23.2 |
| Private Persons | 35.0 | 47.5 | 45.5 | 45.8 | 50.4 | 55.4 |

Source: U.N. Annual Bulletins of Housing and Building Statistics for Europe, 1980, 1981.

---

Table 5.7: Dwellings completed by type of investor (%)

West Germany

| | 1970 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|
| Public Authorities | 2.3 | 3.2 | 3.1 | 3.5 | 1.8 | 1.2 |
| Housing Associations and Co-operatives+ | 18.4 | 15.2 | 13.1 | 12.5 | 7.7 | 8.3 |
| Private | 79.3 | 81.6 | 83.8 | 84.0 | 90.5 | 90.5 |
| of which Private Persons | 58.7 | 58.7 | 64.0 | 63.2 | 68.7 | 68.3 |
| Housing Corporations | 11.2 | 13.5 | 11.4 | 12.1 | 13.6 | 14.6 |
| Enterprises | 9.4 | 9.4 | 8.4 | 8.7 | 8.2 | 7.6 |

+ Usually aided.

Source: U.N. Annual Bulletins of Housing and Building Statistics for Europe 1980, 1981.

Table 5.8: Dwellings completed by type of investor (%)

Ireland

| | 1970 | 1975 | 1976 | 1977 | 1978 | 1978 | 1980 |
|---|---|---|---|---|---|---|---|
| State and Local Authorities | 28.4 | 32.7 | 30.3 | 25.8 | 23.9 | 23.5 | 21.8 |
| Semi Public bodies | 0.4 | 0.4 | 0.5 | 0.3 | 0.2 | - | - |
| Housing Co-operatives ) | | | | | | | |
| Private bodies ) | 71.2 | 66.9 | 69.2 | 73.9 | 75.9 | 76.5 | 78.2 |
| Private persons ) | | | | | | | |

Source: U.N. Annual Bulletins of Housing and Building Statistics for Europe 1980, 1981.

---

Table 5.9: Dwellings completed by type of investor (%)

Netherlands

| | 1970 | 1975 | 1976 | 1977 | 1978 |
|---|---|---|---|---|---|
| State | 0.6 | 4.3 | 3.1 | 2.6 | 2.7 |
| Municipalities | 15.7 | - | - | - | - |
| Housing Associations | 31.6 | 33.7 | 33.9 | 32.1 | 27.7 |
| Private | 52.1 | 62.0 | 63.0 | 65.3 | 69.6 |
| of which Aided | 35.6 | 40.4 | 43.5 | 40.8 | 40.7 |
| Unaided | 16.5 | 21.6 | 19.5 | 24.5 | 28.9 |

Source: U.N. Annual Bulletins of Housing and Building Statistics for Europe 1980, 1981.

---

Table 5.10: Dwellings completed by type of investor (%)

U.K.

| | 1970 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|
| Housing Associations and other Public Sector | 3.3 | 5.9 | 5.8 | 9.6 | 9.4 | 9.7 | 11.2 |
| Local Authorities and New Towns | 48.6 | 46.0 | 45.8 | 45.2 | 38.6 | 35.1 | 36.1 |
| Private Persons Unaided | 46.4 | 46.0 | 47.0 | 44.1 | 50.9 | 54.0 | 52.7 |
| " " Aided | 1.7 | 2.1 | 1.4 | 1.1 | 1.1 | 1.2 | ) |

Source: U.N. Annual Bulletins of Housing and Building Statistics for Europe 1980, 1981.

private rented property. Owner-occupied dwellings accounted for about 93 per cent of the overall construction of private housing in Denmark in 1979.

Production for private rented housing in the Netherlands has declined since the Second World War and is still declining.(1) At least 80 per cent of private house building in the inter-war years was for the private rented sector. Since the war most of the private sector production has been for owner-occupation. 16 per cent of housing built between 1950 and 1956 was for private renting. Private rented housing is either built with government aid ('Premium rented dwellings') or is unsubsidised. The production of both premium dwellings and unsubsidised rental dwellings is declining. Some further information on production by tenure is shown in Table 5.11.

Table 5.11: Production of dwellings by tenure status: the Netherlands

| | 1965 | 1970 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| | Percentage of total production | | | | |
| Rented | 67 | 63 | 53 | 51 | 46 |
| of which Housing Act Dwellings | 43 | 39 | 33 | 34 | 32 |
| Other rented dwellings 'with aid' | 15 | 22 | 19 | 16 | 13 |
| Other rented dwellings 'without aid' | 9 | 2 | 1 | 1 | 1 |
| Owner-Occupied | 33 | 37 | 47 | 49 | 54 |

Source: Original Source: 'CBS Statistical Yearbook of the Netherlands': Used in 'Building Societies and the European Community', Netherlands Research Group Vol.2 Appendices. The Building Societies Association. (Unpublished Report).

(1) Centre for Environmental Studies (1978), 'Private rented housing in the Netherlands', November. (Unpublished).

Housing Act dwellings are built by housing associations. Private rented production was a maximum of 24 per cent of production in 1970 and 14 per cent in 1977. However, the actual proportion is probably rather less than this as a small proportion of premium rented dwellings are built by housing associations.

The decline in new production for the private rented sector is further evidenced by figures on the age structure of the privately rented stock. The figures in Table 5.12 relate to 1975. 81 per cent of accommodation rented from non-institutional landlords was built before 1945. While 72 per cent of that rented by institutional investors was built after 1945, these institutions ceased almost completely to invest in housing after 1975 when d.c.p.r. was introduced.

Table 5.12: Age structure of privately rented stock: the Netherlands 1975 percentages.

| | Individual Landlords | Institutions |
|---|---|---|
| Before 1906 | 22 | 3 |
| 1906 - 1930 | 37 | 15 |
| 1931 - 1944 | 22 | 10 |
| Total before 1945 | 81 | 28 |
| 1945 - 1959 | 7 | 16 |
| 1960 - 1964 | 8 | 15 |
| 1965 - 1970 | 3 | 28 |
| 1971 - 1975 | 3 | 14 |
| Total 1945 - 1975 | 19 | 72 |
| Total Absolute numbers (000's) | 261 | 109 |

Source: Centre for Environmental Studies (1978) 'Private Rented Housing in the Netherlands'. (Unpublished Report).

The official housing statistics for France do not distinguish between rented and owner-occupied dwellings. However, government statistics[1] show 1,533,000 non-H.L.M. rented dwellings built since 1949 and 3,474,000 non-H.L.M. rented units built before 1949. Thus 30 per cent of the non-H.L.M. rented stock was post 1949. This was 8.9 per cent of the total housing stock. However, most of this had been built with the aid of government loans. One can calculate from 'Memento Statistique' the numbers of rented housing units for which government loans were authorised in the period 1970-76. These figures are given in Table 5.13.

Table 5.13: Government loans for rented housing: France 1970-76

| Year | Number of loans authorised for rented housing | Total dwellings authorised | Percentage of Total authorisations which were for rented housing |
|---|---|---|---|
| | (000's) | | |
| 1970 | 37.6 | 593.2 | 6.2 |
| 1971 | 36.8 | 667.4 | 5.5 |
| 1972 | 38.2 | 637.1 | 5.9 |
| 1973 | 21.2 | 670.0 | 3.1 |
| 1974 | 19.1 | 625.3 | 3.0 |
| 1975 | 18.4 | 539.6 | 3.4 |
| 1976 | 11.2 | 575.0 | 1.9 |

Source: Memento Statistique (1976) Table 1.2

The number of subsidised rented dwellings for which building permission was given was lower in 1976 than in 1970 both in absolute terms and as a percentage of total dwelling permissions. A decline in construction for private renting is confirmed in the CES report.[2]

(1) Ministère De L'Environment et du Cadre De Vie (1976), 'Mémento Statistique', Table 1.2.

(2) Centre for Environmental Studies (1979B), op. cit.

The housing production statistics for Ireland[1] distinguish only between 'local authority dwellings for letting or purchase' and 'other dwellings'. Comments on the figures[2] however, make it clear that almost all of the 'other dwellings' have, in the post-war period, been for owner-occupation.

In the U.K. the housing construction figures do not distinguish between private dwellings for owner-occupation and private dwellings for renting. Some indications of new construction for the private rented sector in England and Wales are however, available from the Housing Policy 'Green Paper' (1977).[3] In the period 1914-38 0.9 m dwellings were built for private renting. Much of this was in the 1930's. Between 1933 and 1939 houses for letting by private owners were being built at a rate of "well over 60,000 a year" and "in the inter-war years a substantial number of flats were built for private owners. The number is not known exactly but "can hardly have been less than 100,000 and may well have been in the range 100,000 - 200,000" and "of the new houses and flats built between the wars between $1/5$ and $1/4$ were for private owners for letting". From 1938 to 1960 0.1 m dwellings were added by new building and conversion. From 1960 to 1975 the 'private rented and other' sector experienced additions of 0.3m by new building and conversions, but "Much of this was however for housing associations". The figures suggest that 0.093 m was for housing associations and 0.051m

---

(1) For Example, Department of Local Government, Dublin (1977), 'Quarterly Bulletin of Housing Statistics', 30th June, 1977.

(2) See, National Economic and Social Council, Dublin (1976), op. cit, and Department of the Environment, Dublin (1978), 'Current trends and policies in the field of housing, building and planning'.

(3) H.M.S.O. (1977), op. cit.

by public authorities for their own employees. There was also "no doubt some building by private owners for their employees. It is unlikely that the number of dwellings built or converted for letting by private owners exceeded 100,000".(1)

The age structure of the stock demonstrates the low level of new construction since the war. The 'Private rented and other' sector consisted of 76 per cent pre-1914 dwellings, 10 per cent 1914-44 dwellings, and 14 per cent post 1945 dwellings in 1975. The pre-1914 dwellings were virtually all owned by private landlords while many of the post-1945 dwellings were run by housing associations.

Thus, the available evidence suggests that privately rented housing is declining as a proportion of the housing stock and as a proportion of new housing construction in each country.

## 5.8 Demolition and the transfer of property from the private rented sector.

Much of the rented sector has consisted of older dwellings in each of the countries studied and a large proportion of this older rented stock has been in the centres of the larger cities. Those countries which have carried out significant demolition and renewal programmes have inevitably knocked down much of the private rented stock. It is likely that demolition rates were comparatively high in the U.K. in the 1950s and 1960s and losses from the rental sector consequently high compared with some other countries. Comprehensive data on demolition is not available but calculations from U.N. sources suggest that even in the 1970s demolition rates were high in the U.K. and Ireland compared with West Germany. In

---

(1) ibid., pp.64-67.

Ireland in 1970 0.88 per cent of the stock was 'lost', and 0.8 per cent in 1975. In the U.K. the figures were 1970, 0.59 per cent; 1975, 0.40 per cent. In West Germany the figures were 1970, 0.21 per cent; 1975, 0.22 per cent.

Transfers of private rented property to the owner-occupied sector have been more significant in some countries than others. In West Germany there has been "no large scale selling for owner-occupation".(1) However, in England and Wales sales to owner-occupation totalled 1.5 m dwellings in the period 1938-60 and 1.1m in the period 1960 to 1975. This played a significant part in the decline of the sector as the figures in Table 5.14 show.

Table 5.14: Components of change in the 'Private Rental and Other' Sector, England and Wales, 1960-75

| | Change: millions of dwellings |
|---|---|
| Sales to owner-occupation | -1.1 |
| Sales to local authorities | -0.1 |
| Demolitions and changes of use | -0.8 |
| New building and conversions | +0.3 |
| Net change | -1.7 |

Source: Table IX.2 Housing Policy 'Green Paper', Technical Volume Part III, 1977.

The high proportions of flats in the housing stock in West Germany, the Netherlands, Denmark, and France have together with subsidies for owner-occupation influenced the relative decline of the private rented sectors in these countries compared with the U.K. There are often legal problems regarding the transfer of flats to the owner-occupied sector and there may be low levels of demand for flats for

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn 'Report on Denmark: The Owner-Occupation Rate', op. cit.

owner-occupation. This has been particularly so in West Germany where a principal means of subsidising owner-occupation has (in the absence of mortgage interest tax relief) been tax concessions relating to newly constructed housing. These concessions have not been available to purchasers of 'converted' flats. In France and the Netherlands there have been subsidies for construction costs for owner-occupied housing and a special scheme for subsidising *new* housing for lower income groups in the Netherlands. Such measures do not encourage transfers of rented housing to the owner-occupied sector

A change of policy with respect to 'conversions' has significantly contributed to the growth of owner-occupation and the decline of the private rented sector in Denmark. Large numbers of rented apartments (flats in apartment blocks) were converted to owner-ocupation in the 1970s. Before 1970 there were about 7,000 owner-occupied apartments in 1977 there were over 60,000.(1) This is a result of changes in the law. Such conversion has only been legally possible since 1966. It has now been made more difficult again by a legislative change in November 1979 which prevents a change from renting to owner occupation if the property contains more than two dwellings and was built before 1966. The Danish "Current Trends" document (1979)(2) states that considerable profits can be realised by landlords selling flats for owner-occupation despite a special tax on this activity introduced in 1977.

5.9 <u>Rent controls and the size of the private rented sector.</u>

The proposition that rent controls are the main cause of the decline of the private rented sector is difficult to test because of the

---

(1) ibid.

(2) Ministry of Housing and Ministry of the Environment, Copenhagen (1979), op.cit., p.14.

problems of definition and measurement which the previous five sections have specified. There are, however, many logical reasons for doubting the validity of the proposition and much evidence from many countries to suggest that factors other than rent controls have helped to reduce the size of the private rented sector.

In assessing the effects of rent controls it is difficult to determine their impact on the average rent index (the measure depicted in real terms in Figures 5.1 and 5.2.) The 'strength' of controls cannot be measured precisely. Without any controls, rents in some countries might rise only slowly, or not at all, if, for example, demand was not increasing. It would thus not be correct to assume for example that the lower real rent increases in the United Kingdom and Ireland than in France in the post-war period necessarily show that rent control was less severe in France.

Changes in rent controls in different countries have undoubtedly had some effects on the progress of real rents but without estimates of what rent levels would have been in a hypothetical free market situation precise conclusions about the relationship between rent controls and real rents are, of course, impossible. The decontrol measures in the 1950s and 1960s in France, for example, probably made a significant contribution to the large increase in real rents and one can observe increases in real rents in the United Kingdom after the passage of the 1957 Rent Act, which introduced a measure of decontrol, but the magnitude of the effects of these measures cannnot be determined.

Instead of investigating the relationship between rent controls and the size of the private rented sector one could examine the relationship between movements in the level of real rents and the size of

the private rented sector. There appears, however, to be no simple relationship between changes in real rental levels and changes in the volume of private rented accommodation. Considerable contractions in the size of the private rented sector have sometimes happened over time periods in which significant increases in rents occurred. In the Netherlands, for example, rents increased by over 50 per cent in real terms from 1947 to 1967 but the private rented sector declined over this period from about 60 per cent to 29 per cent of the housing stock. The rent increases were encouraged by a series of acts passed in the 1950s and 1960s. Further increases in real rents did not prevent the sector declining to 21 per cent of the stock by 1975. Real rents in West Germany over the period 1949 to 1978 increased less than in the Netherlands but the private rented sector showed very little contraction compared to that experienced in the Netherlands.

One has to look beyond the naive suggestion that rent controls have been responsible for the decline of the private rented sectors in various countries to understand the relative fortunes of this sector in the different countries studied. A contraction of the sector might be associated with a downward shift of the demand curve for private rented accommodation or an upward shift of the supply curve or a combination of the two. Many factors have been at work, in varying degrees, in the different countries which could have encouraged shifts.

In the 1950s and 1960s increased availability of low rent public sector or non-profit housing may have led to a switch of demand away from the private rented sector, in all of the countries. Many factors,

which are detailed in Chapter Seven, shifted demand towards the owner-occupied sector. Increases in incomes had this effect as, particularly in Denmark, Ireland and the United Kingdom, did an increasing availability of low-cost mortgage finance. Reductions in subsidies for landlords, and for builders of properties to rent, have helped reduce the supply of private and rented dwellings in France, the Netherlands and Denmark. As detailed in section 5.6, such subsidies were significant in the early post-war period but government assistance to the private rented sector ceased in Denmark in 1958, was reduced in the Netherlands in 1966, and again in 1975,and significantly reduced in France after 1963. Legislation which has enabled buildings to be transferred from private renting to other tenures has also reduced supply in some countries. Section 5.8 noted particularly, in this context, the legislation in Denmark in 1966 which resulted in many rented flats being sold into owner-occupation.

It is perhaps ironic that rent decontrol and its usual concomitant, a relaxation of security of tenure provisions, may have had two effects contrary to those envisaged in arguments that have predicted that a 'revival' of the private rented sector would follow the abolition of government controls on rent levels: (1), higher rent levels following decontrol may have caused some switching of demand away from the sector and (2) the granting of vacant possession may have encouraged some landlords to sell into the owner-occupied sector.

## 5.10 'Rent-Gaps' : Variations in rents within the stock

As indicated in Chapter Four measures to relate housing payments to the size and quality of dwellings have been attempted in many countries. Despite this, significant gaps between the rents of older and newer dwellings with comparable amenities exist in Denmark, the Netherlands, France and West Germany. In each of these countries this problem of rent-gaps has received much attention but in Denmark and the Netherlands, in particular, the rent-gap problem has been a major issue in housing policy. In these two countries the variations with age are particularly large and exist in the rented sector as a whole and within the private and non-profit components of this sector. 'Rent-gaps' have not been an issue in the U.K. and Ireland. The reasons for this will be discussed later.

The examples in Tables 5.15 and 5.16 illustrate the higher rent levels for newer housing compared with older housing in both the private and non-profit sectors in Denmark.

More detailed figures for the non-profit sector have been obtained from the Federation of Non-Profit Housing in Denmark. These are shown in Table 5.17. They show quite clearly that year of construction is significantly associated with rent. As costs have increased year by year so have the cost related rents (over the long term for specific occasional years rents fell compared with the previous year of construction). Property built immediately after the Second World War had rent levels only about 50 per cent of those charged for property built in 1978.

Table 5.15: Denmark: Average Rent per year in Kroner of private housing with central heating, 1976.

| Year of building:- | Before 1919 | 1920-40 | 1941-60 | 1961-65 | 1966-70 |
|---|---|---|---|---|---|
| 2 Rooms | 4,100 | 4,900 | 5,900 | 9,540 | 13,200 |
| 4 Rooms | 7,547 | 8,300 | 9,100 | 12,300 | 17,100 |

Source: Federal Ministry for Regional Planning, Building and Urban Development, Bonn 'Report on Denmark: The Owner Occupation Rate'. Undated and unpublished report prepared for the Federal Ministry by consultants in Denmark (supplied by the Federal Ministry for Regional Planning, Building and Urban Development).

---

Table 5.16: Denmark: Average Rent per year in Kroner in non-profit housing with central heating, 1976.

| Year of building:- | Before 1919 | 1920-40 | 1941-60 | 1961-65 | 1966-70 |
|---|---|---|---|---|---|
| 2 Rooms | 5,200 | 5,300 | 6,100 | 7,900 | 9,700 |
| 4 Rooms | 7,300 | 8,100 | 9,000 | 11,300 | 14,000 |

Source: Federal Ministry for Regional Planning, Building and Urban Development, Bonn 'Report on Denmark: The Owner Occupation Rate'. Undated and unpublished report prepared for the Federal Ministry by consultants in Denmark (supplied by the Eederal Ministry for Regional Planning, Building and Urban Development).

Table 5.17: Denmark: Non-Profit housing Rents and Age of dwellings 1979

| Year of Construction | Average Rent per sq. metre (in Kroner) at 1.1.79. Hoverstad region (Greater Copenhagen) | Provinces |
|---|---|---|
| Before 1933 | 100 | 93 |
| 1934-40 | 124 | 106 |
| 41-45 | 135 | 108 |
| 46-50 | 141 | 109 |
| 51-55 | 145 | 113 |
| 56-60 | 142 | 116 |
| 61-62 | 154 | 120 |
| 63-64 | 158 | 131 |
| 65-66 | 183 | 137 |
| 67-68 | 186 | 152 |
| 69-70 | 214 | 161 |
| 71-72 | 203 | 168 |
| 72-73 | 201 | 175 |
| 73-74 | 242 | 200 |
| 74-75 | 242 | 218 |
| 75-76 | 262 | 221 |
| 76-77 | 258 | 214 |
| 77-78 | 274 | 233 |

Source: 'Statistik' Jan. 1979, Boligselskabernes Landsforening (Federation of Non-Profit Housing, Copenhagen).

---

The variation of rent levels with the age of the property in the Netherlands is apparent in Table 5.18. 86 per cent of dwellings built before 1931 had rents of less than 2,999 guilders per annum, as did 79 per cent of those built between 1960 and 1969 and 12 per cent of those built after 1970 had rents in this band. 63 per cent of dwellings built after 1970 had rents greater than 4,200 guilders per annum but only 5 per cent of those built before 1931 had rents that were this high.

There are wide variations in rents in the private and public sectors in the U.K. but the date of construction does not appear to be as significant a factor in explaining these variations as is the case in the Netherlands and Denmark. Table 5.19 illustrates

Table 5.18: The Netherlands Rents and Age of dwellings 1978

| Rent level (Guilders p.a.) | Construction Period: Before 1931 | 1931-1959 | 1960-69 | 1970 and after |
|---|---|---|---|---|
| | Percentage of dwellings in each age group with rents falling in given band | | | |
| > 1200 | 15 | 4 | 0 | 0 |
| 1200 - 2999 | 71 | 75 | 31 | 12 |
| 3000 - 4199 | 9 | 14 | 36 | 24 |
| 4200 - 5999 | 3 | 4 | 25 | 45 |
| 6000 | 2 | 2 | 6 | 18 |

(Totals do not add to 100 because of rounding).

Source: Central Bureau voor de Statistich, 1977, 1978, Den Haag 1980. (In Tables and Letter : Personal Communication Professor H. Priemus, Technesche Hogesschool, Delft 9.12.80).

---

Table 5.19: Rents of Dwellings rented from private landlords and local authorities, England and Wales, 1973. (£ p.a.)

| | Lowest decile | Lower quantile | Median | Upper quantile | Highest decile |
|---|---|---|---|---|---|
| Unfurnished Private landlord | 24 | 45 | 76 | 150 | 265 |
| Furnished Private landlord | 95 | 174 | 253 | 382 | Over 400 |
| Local Authority | 69 | 115 | 168 | 212 | 260 |

Source: Table IX.3 Housing Policy 'Green Paper' Technical Volume Part III, 1977.

---

the variations in rents of both private and local authority tenants in 1973. In the private rented sector such factors as whether a property has been subject to a regulated or controlled rent and how long the tenant has been in the accommodation have an important bearing on the rent level: "The very great variations in rents within

the private rented sector results not only from accident of history and the incidence of controls, but also from the tendency for rent to be raised .... when a new tenant comes, but left alone during the tenancy so as not to impair relations with 'good' tenants".(1)

In the public sector "the differences associated with age..... are not large".(2) The statistics suggest that there are variations in rent levels with the age of dwelling but these variations are not as great as in Denmark or the Netherlands. This is illustrated by the information in Table 5.20.

Table 5.20: Average rents for selected dwelling types, April 1976 England and Wales (£ per week).

| | Construction Period:- | | | |
|---|---|---|---|---|
| | Before 1945 | 1945-64 | Before 1964 | Developments completed in 1975/76 |
| 2 Bedroom Houses | 3.93 | 4.56 | 5.15 | 5.61 |
| 3 Bedroom Flats | 4.65 | 5.62 | 6.19 | 7.87 |

Source: Housing Policy 'Green Paper' Technical Volume Part III, 1977, Table VIII.25.

There are however "wide differences between average rents from one authority to another".(3) Tables VIII.27 and VIII.28 in the Housing Policy 'Green Paper', Technical Volume Part III reveal

(1) H.M.S.O. (1977), op. cit., p.71.
(2) ibid., p.36.
(3) ibid., p.37.

the large variations in rent levels between authorities.(1) These variations are partly a reflection of the age structure of the stock and the consequent differences in costs that have to be met but they also reflect varying entitlements to exchequer grants and varying local decisions on rate - supported subsidies. Within local authorities variations in rent levels due to the age of dwellings are avoided by the policy of 'rent pooling' whereby costs are averaged over all the dwellings in the stock and are not dwelling, 'block', or 'estate' specific. The non-profit housing associations in the Netherlands and Denmark are not allowed to engage in such rent-pooling. Costs have to be calculated for particular developments and the rents of individual dwellings must be linked to these costs.

The causes of rent-gaps lie in a combination of rising building and interest costs and government rent policies. In the private sector rent controls have kept down the rents of older dwellings. These controls are both of the 'direct' variety and the type which require cost related rents as a condition of subsidy. The Netherlands has this type of subsidised private accommodation in the form of premium rented dwellings. Such subsidies ceased in Denmark in 1958. Newer properties have cost price rents which are higher than those of older properties because of long run increases in cost. Rents of newer properties have not been subject, in the private sector, to the same controls as older properties. In the non-profit sector rents related to historic costs ensure that rent gaps will exist when costs rise over time.

---

(1) An index of weekly average rent (un-rebated) for April 1976, using the average for England and Wales as 100, gave, for example, the following figures: Kensington and Chelsea 181, Bromley 161, Tower Hamlets 93, Newcastle 75, Durham 74.

The literature on rent-gaps referred to in this chapter does not subject the concept to analytical treatment. In order to analyse the nature of the phenomena there follows, below, an application of basic demand and supply analysis to the market for newly built accommodation to rent.

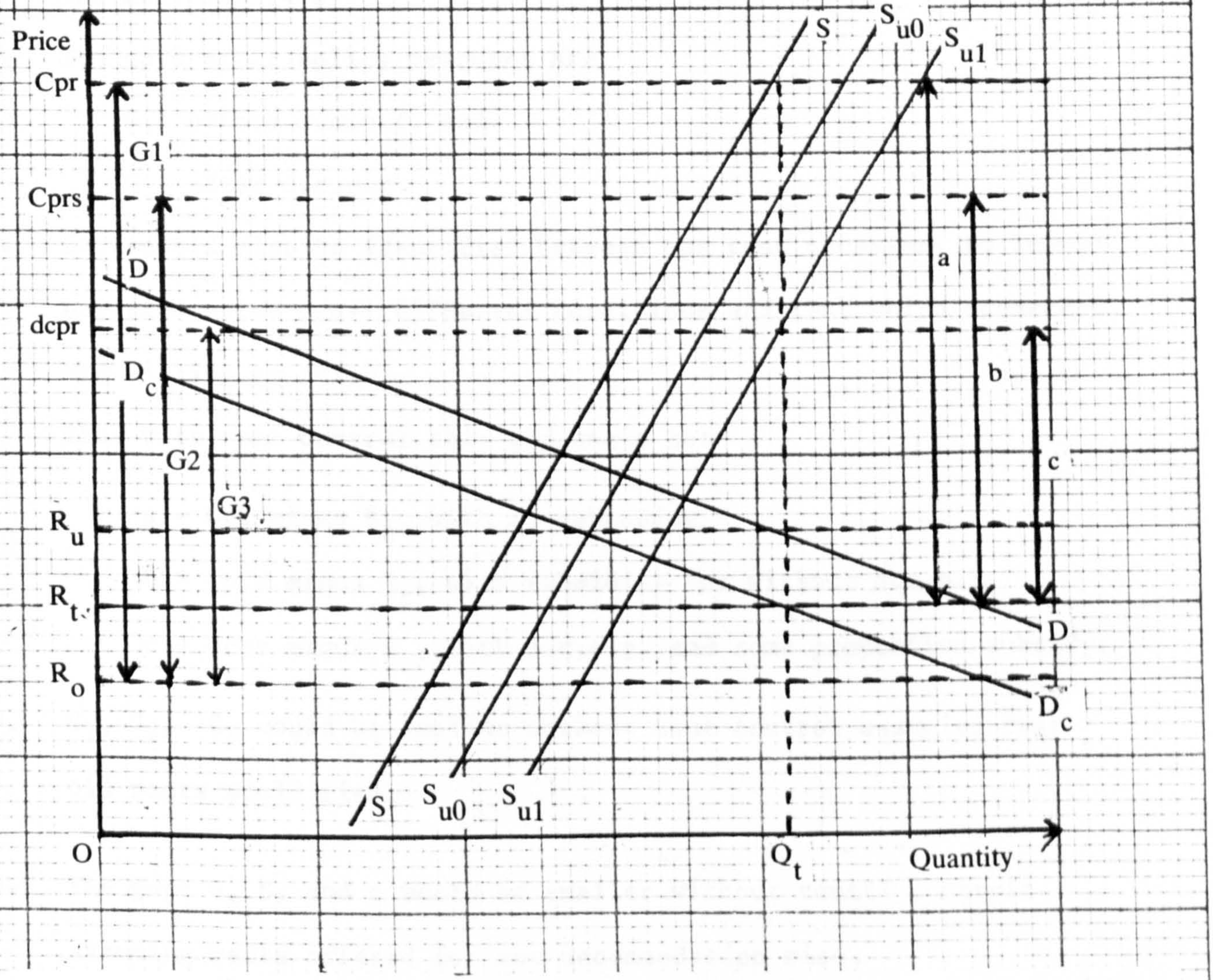
In Figure 5.5 'D' and 'S' depict the demand and supply of new accommodation over a given time period without any rent controls or subsidies. It is assumed that units of new accommodation are homogeneous. If the rents of old accommodation are kept down as a consequence of government policy, rents of old accommodation will be at $R_o$. This low rent level might be achieved by a variety of means: e.g. government edicts regarding private rented property or regulations which require that the rents of old property in the non-profit sector reflect historic rather than current building and interest costs.

Government measures may shift the supply curve of new property to $S_{u0}$ or $S_{u1}$. $S_{u0}$ is achieved simply by offering a per unit subsidy to either builders or landlords, for new accommodation. The subsidy could, furthermore, be offered to non-profit housing associations. The diagram relates to supply from all sources. It is assumed that non-profit associations work within the constraints of demand and supply as modified by government regulations and subsidies. $S_{u1}$ is the supply curve assuming that suppliers can charge dynamic cost price rents[1] and receive some subsidy. Lower rents are received in the early years of a newly completed housing project but rents are allowed to rise in later years. This expectation (or guarantee) of increasing permitted

---

(1) As adopted in the Netherlands, see pp. 254-256

Figure 5.5 The Rent-gap with a production target, the market for new accommodation to rent.




DD = Demand for new accommodation in 'free market' situation, i.e. no rent controls for 'old' or 'new' housing and no consumer subsidies.

SS = Supply of new accommodation without subsidies.

$D_c D_c$ = Demand for new accommodation with rent control for 'old' accommodation (shifts left because of fall in the price of substitute).

$R_0$ = Level of controlled rent for 'old' accommodation.

$S_{u0}$ $S_{u0}$ = Supply of new accommodation with production subsidy and no d.c.p.r.

$S_{u1}$ $S_{u1}$ = Supply of new accommodation with smaller production subsidy and d.c.p.r. (shift to right because of expectations of higher future rent levels implied by d.c.p.r.)

$Q_t$ = Government production target.

Cpr = Cost price rent necessary to achieve $Q_t$ without subsidy.

Cprs = Cost price rent necessary to achieve $Q_t$ with subsidy but without d.c.p.r.

d.c.p.r. = Cost price rent necessary to achieve $Q_t$ with d.c.p.r. system and some subsidy.

$R_t$ = Rent offered for $Q_t$ with rent controls.

$R_u$ = Rent offered for $Q_t$ without rent controls.

G1 = Gap between rents of 'old' accommodation and cost price rents of new accommodation (*The Rent Gap*).

For definitions of G2 and G3 and a, b, and c see next page.

Summary of Points relating to Figure 5.5

1. The Rent-Gap is $G_1$

2. The gaps after policy measures are

   $G_2$ before d.c.p.r. and

   $G_3$ after d.c.p.r.

3. Gaps could also be identified between the rent necessary to induce new production under different conditions and that which consumers are willing to offer.

   Thus with rent control this gap would be:-

   a = Cpr minus $R_t$, with no subsidies

   b = Cprs minus $R_t$, with subsidies but without d.c.p.r.

   c = dcpr minus $R_t$, with d.c.p.r. and some production subsidy.

4. $G_1$, $G_2$, $G_3$ would be smaller without rent control assuming that old rents would rise.

5. The gaps a, b, and c would be smaller without rental control: assuming rents offered for new accommodation rise.

6. For a level of production $Q_t$ to be induced subsidies must be paid equal to a, b or c, according to the conditions.

7. In fact with d.c.p.r. the gap c is bridged in the Netherlands by a consumption subsidy : the individual rent subsidy.

rent levels is assumed to be sufficient to shift $S_{u1}$ to the right of $S_{u0}$.

It is assumed that the demand for new accommodation is at $D_c$ with controls on 'old rents'. This is mainly because the price of a substitute has fallen and this decreases demand for the alternative good. Some, perhaps only a little, old accommodation will come onto the market as tenants move on for one reason or another. Some households will be attracted towards this old low-priced property and will prefer it to the newer higher-priced units. It might also be argued that rent controls influence preferences and mobility keeping some households in old property and out of the market for new accommodation so that without controls there might be greater demand for new accommodation.

In Figure 5.5 it is assumed that the goverment sets a production target of $Q_t$ units of new accommodation. With supply curve S and demand curve $D_c$ the resulting market equilibrium rent would be insufficient to induce a production level of $Q_t$. For production to be at $Q_t$ (with supply curve S) rents would have to be at Cpr. The difference between this cost price rent for new dwellings and the rent for old dwellings ($R_o$)is 'The Rent-Gap'. A subsidy shifts supply to $S_{u0}$ and the cost price rent falls to Cprs, thus reducing the rent gap. With the dynamic cost price rents policy,(1) plus subsidies, the supply curve is at $S_{u1}$ and the rent gap is the difference between dcpr and $R_o$.

At a rent level of dcpr there is insufficient demand to take up all of the supply of $Q_t$. The rents paid by tenants have to fall to $R_t$ for demand to equal the supply of $Q_t$ units. Subsidies paid

---

(1) As adopted in the Netherlands, see pp. 254-256

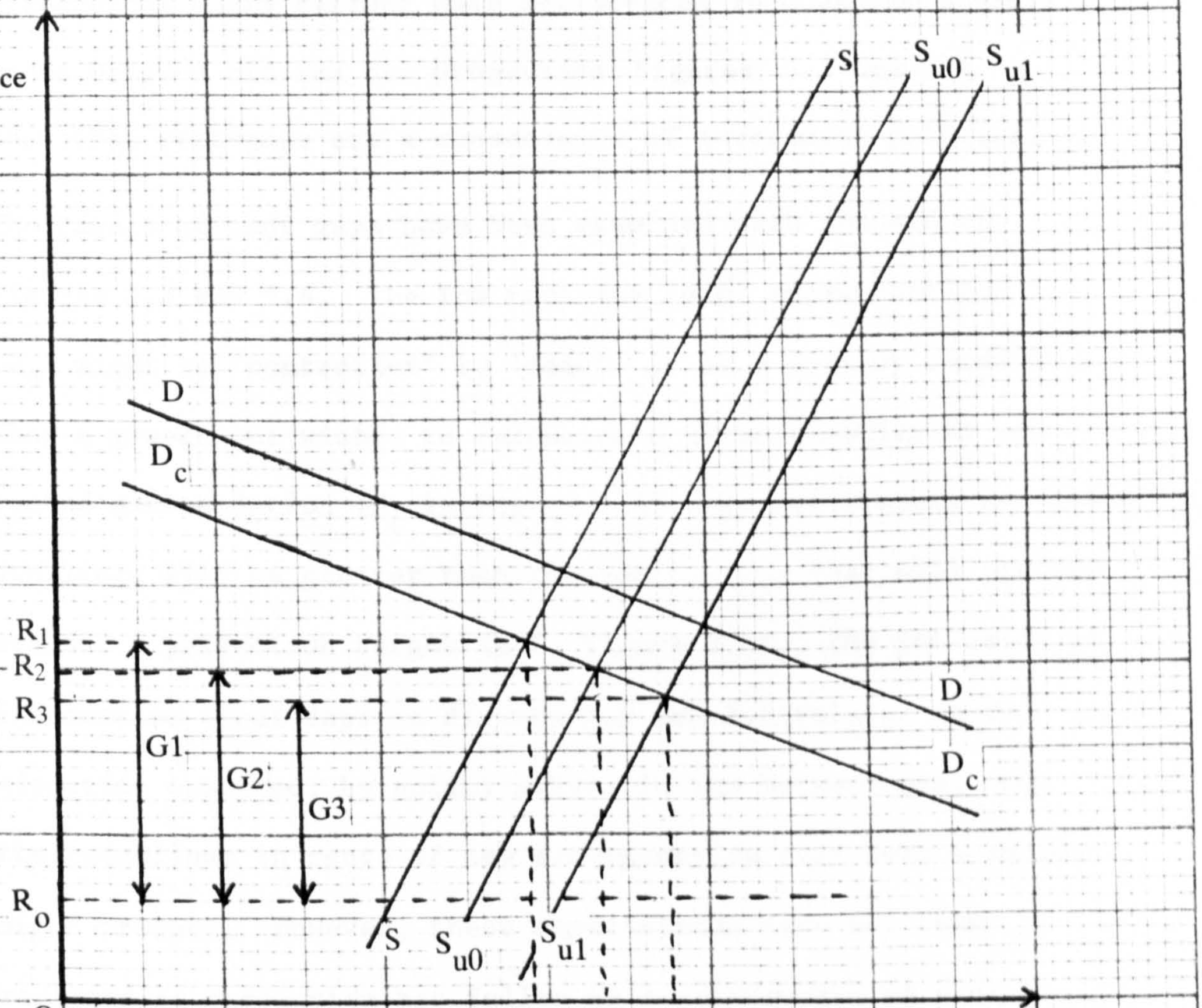
directly to tenants can be used to bridge the gap between $R_t$ and dcpr (labelled 'a'). With supply at $S_{\ell}$ or $S_{u0}$ the subsidy necessary to bridge the gap between the rent tenants were willing to pay and that required by landlords ('a' or 'b') would be higher. If the new accommodation is to be fully occupied, consumer subsidies equal to 'a', 'b', or 'c', must be paid in addition to any production subsidies. In the case of consumer subsidy 'a' no production subsidy is necessary for this allows suppliers to receive Cpr per unit.

In Figure 5.6, the demand and supply curves are depicted under the same assumptions as for Figure 5.5, but it is assumed that the governmment does not set a production target. Output is, rather, determined by the interaction of demand and supply as modified by governmment regulations and subsidies. It is assumed, as in Figure 5.5, that the rents for old accommodation are set at $R_0$.

Without any production subsidies, $Q_1$ is demanded and supplied and rents for new property are at $R_1$ and those for old property at $R_0$ . The difference between $R_1$ and $R_0$ is the 'Rent-Gap'. It is smaller than the rent-gap that would exist if the government set output above $Q_1$ . Without a production subsidy the rent gap is $R_2$ minus $R_0$ ; and with dcpr and a production subsidy it is $R_3$ minus $R_0$ . There are no gaps equivalent to 'a', 'b', and 'c'in Figure 5.5 and thus no additional subsidies are necessary to ensure equilibrium between demand and supply.

The rent gaps in Figure 5.6 are smaller than in Figure 5.5 because there is a production target in Figure 5.5. If $R_0$ was raised the rent-gap would be reduced. Without any government

Figure 5.6 The rent-gap without a production target, the market for new accommodation to rent




Notation as for Figure 5.5, but

$Q_l$ = Quantity supplied with no production subsidy but with rent control.

$Q_1$ = Quantity supplied with production subsidy but no d.c.p.r. with rent control.

$Q_3$ = Quantity supplied with d.c.p.r., some subsidy and rent control.

$R_1$ $R_2$ $R_3$ are the equilibrium rents corresponding to alternative demand and supply conditions.

$R_0$ is the level of controlled rent for old accommodation.

Summary of points relating to diagram 5.6

1 G1, G2, G3 are smaller without a production target, assuming the production target would be to the right of $Q_1$, $Q_2$, $Q_3$ respectively. Thus the rent-gap is smaller without a production target.

2 There are no gaps that are equivalent to a, b, and c, in Figure 5.5. Thus no additional subsidies are necessary without a production target and the total subsidy bill is lower.

controls or regulations on the rents of old properties rent differences would reflect only differences in consumer preferences between old and new properties. Figures 5.5 and 5.6 show that rent-gaps are a consequence of government policies.

The causes of rent gaps have been examined with the aid of Figures 5.5 and 5.6. The low rent for 'old' accommodation '$R_0$' might be 'controlled' by 'edict' or as a subsidy condition. When a government wishes to encourage a given quantity of new rented accommodation ($Q_t$ in Figure 5.5) cost price rents for these dwellings will be greater than the rent levels that will prevail without a production target (c.f. Figure 5.6). The inclusion of information about dcpr in Figures 5.5 and 5.6 relates to the situation expected, by policy makers in the Netherlands, and the reductions in rents of new accommodation that such a policy might produce. However, these expectations have not been realised as production has fallen as a consequence of dcpr. Thus, in fact, $S_{u1}$ in Figures 5.5 and 5.6 would appear to be to the left and not to the right of $S_{u0}$, as shown on the basis of policy makers' expectations. Figure 5.5 also illustrates the necessity of subsidies if governments require significant levels of new production when rent-gaps exist.

Turning from the causes of the rent gap to its consequences, it has been viewed as a problem in terms of adverse effects on both the supply of new accommodation and access to dwellings. Each will be dealt with in turn.

(a) Adverse effects on the supply of new accommodation.

Private developers have to charge at least cost-price rents for building to rent to be profitable. Assuming cost includes a 'normal profit' element, it is the minimum rent necessary in order to ensure production. However, consumers may be reluctant to pay the rents necessary to induce large amounts of construction. Supply must therefore rely on subsidies. In the non-profit sector, increasing subsidies are necessary to keep down the rents of new accommodation. As subsidies to this sector became increasingly expensive, the Dutch and Danish governments reduced, in the 1970s, the volume of non-profit housing to which they gave subsidies. This was done by placing increasingly stringent limits on the number of dwellings per annum eligible for subsidy.

(b) Adverse effects on access to dwellings.

If the incomes of tenants of older dwellings increase over time but they do not move to newer, more expensive, accommodation there is the picture, as painted for the Netherlands by Steensma,[1] of older, higher income, people in older, cheaper, housing, while younger, lower income, people are offered newer, more expensive, housing which they are reluctant, in many cases, to take up. The rent-gap is blamed by Steensma for some of the new stock being left empty.

---

(1) Steensma, A. (1973), 'Housing cost and income'. Proceedings of the Seminar on Financing of Housing, Geneva, August. U.N.E.C.E.

In Denmark, the Federation of Non-Profit Housing has expressed concern about the consequences of the rent gap both in terms of its inequity with respect to variations in rent levels, which are unrelated to the standard of accommodation provided, and in terms of the effect of the high cost price rents for newer property on the demand for that property. It is feared that the high rents for newer dwellings switch demand from the non-profit rented to the owner-occupied sector, and this switch is further encouraged by mortgage subsidies.

There were many attempts in the Netherlands and in Denmark in the 1960s and 1970s: to introduce new rent determination policies which would reduce the rent gaps and produce a more equitable relationship between the size and quality of accommodation and the rent paid.

In Denmark, major initiatives directed towards closing the rent gaps were taken in the 'Housing Pact' of 1966. This was an agreement on long term housing policy measures between the Social Democratic goverment and the three main non-socialist parties in the Folketing (Parliament). The agreement included measures to raise the rents of older accommodation and lower those of new dwellings. The older private rented stock was made subject to 'reasonable rents' set by rent assessment boards consisting of representatives of the municipalities, landlords and tenants. The rent structure of non-profit associations was modified to allow increases on the older stock and increased subsidies were given to new construction to keep down rents. Capital subsidies were paid by goverment. Under an interest guarantee scheme

('Rentesikring') it was agreed that the government would subsidise any portion of interest charges above 6 per cent for six years after completion. This related to money borrowed commercially i.e. mainly from the mortgage credit institutes. It is estimated that the effect was to keep down rents by about 40 per cent in the first six years of a dwelling's life. The subsidy was to be agreed for a limited number of dwellings per annum: initially 13,000.

The 'Pact' allowed for an eight year transition period (up to 1974). In this time rents rose about 40 per cent in the private rented housing sector and 20 per cent in the non-profit sector on average. The proceeds of the rent increases were distributed according to a given formula. In the private sector only 25 per cent was available for the free disposal of the landlord; 25 per cent was to be spent on maintenance, while 50 per cent was placed in the Property Owners Investment Fund which could in turn lend money for maintenance expenditure. In the non-profit sector, 70 per cent of the additional income went to the National Building Fund (which could help finance further production) and 30 per cent to the housing associations'own investment and maintenance fund. The 'Pact' also introduced the system of 'graded rents' as a means of directly subsidising low income tenants in the private and non-profit sectors. This was, in effect, a system of housing allowances.(1)

The '1966 Pact' was not successful in its attempt to significantly narrow the gaps between the rents of older and of new properties. New dwellings continued to have cost related rents substantially higher than those charged for older properties. A further long

---

(1) See Chapter Six.

term agreement or 'Pact' was signed in 1975. An extension of the graded rents system was agreed as a means of helping non-profit tenants and as a means of compensating for (but not eliminating) high rents in new accommodation. Rents on older privately rented properties were raised by the introduction of 'economic rents' which were intended to cover running costs and a suitable annual yield on investment in the property. This has been interpreted as 7 per cent of the official valuation of the dwelling. The rent increases on the older stock have not been sufficient to close the rent gap. The gap remains a problem.

In the Netherlands, the rent-gap problem was the major impetus to the 'Rent Harmonisation Act' of 1971. This instigated gradual increases in the rents of all older properties but cost increases maintained a gap between the rents necessary to cover costs - even after subsidies had been taken into account in the non-profit sector. A further attempt to reduce the rent-gap was made in 1975 with the introduction of the principle of 'Dynamic-Cost-Price-Rent (d.c.p.r.) calculations. These relate rent increases to general inflation and building cost changes. The plan was that this would initially reduce 'new' rents and 'old' rents would be raised until harmonisation was achieved. From that point on, there would be similar annual rises for both. The principle of d.c.p.r. is one which one encounters frequently in the literature on Dutch housing. Prior to its introduction there was much debate about its advantages. In 1972 the Dutch Housing Ministry issued a statement on 'Rents, Subsidies and Dynamic Cost'[1]

---

(1) Floor, J.W.G. (1972), 'Rents, Subsidies and Dynamic Cost', Paper submitted by Floor (Director-General of Housing and Building, Ministry of Housing and Physical Planning) to the XXVIII Congress of the International Institute of Public Finance, New York, September 1972 (also published as a statement from the Ministry).

which argued for the introduction of d.c.p.r.

The statement claimed that rent controls and subsidies had for many years kept rents charged below cost price rents. For the most recently constructed accommodation rents paid were about half cost-price rents. It was suggested that the rents of new dwellings should be lowered by introducing d.c.p.r. The calculation was to be based on the following equation:-

$$100 = \frac{x}{1+i} + \frac{x(1+i_1)}{(1+i)^2} \ldots\ldots\ldots + \frac{x(1+i)^{n-1}}{(1+i)^n}$$

where,

Capital invested in the building is given a nominal value of 100.

A rate of interest of P per cent gives $\frac{P}{100} = i$.

Changes in the replacement costs of successive housing services (determined by changes in construction costs) average $P_1$ per cent per annum and $\frac{P_1}{100} = i_1$.

n = economic life of the building.

x = return on capital component of the cost price rent for the first year.

The value of x would have to be increased to allow for maintenance and management costs to arrive at the d.c.p.r. With given values for i, $i_1$ and n, x could be calculated.

The statement argued that realistic values for the variables suggested an average d.c.p.r. of 6.4 per cent of building costs. It was recognised that direct subsidies to tenants would be necessary to enable some low income earners to pay the d.c.p.r. The

overall objective was to contribute to a situation in which housing services of equal quality were available at the same price.

Since 1979 all rents in the Netherlands have been subject to a points system (See Section 5.2 above). Subsidies ensure that suppliers of new rented housing receive at least the d.c.p.r. As previously discussed, the supply of privately owned subsidised rented accommodation has declined under the d.c.p.r. system. (The figures were given in Chapter Four).

The Dutch have, since 1st July 1979, something which no other country in this study has : A National Rent Policy, which provides a common system for setting all rents: old and new,private and non-profit. The 'Points System' provides a common basis of assessment for all rented property. A booklet[1] published by the Ministry of Housing and Physical Planning sets out the details for assessing the rent levels of all property. This is made available to all landlords and tenants. Some time will have to elapse, however, before rents are harmonised under this system for it imposes annual limits on rent increases. The Dutch, however, have frequent detailed changes of policy and as noted in Section 5.2 changes in policy may remove the limits. The size of dwelling and the quality of the accommodation are the principal factors contributing towards a complex system of positive and negative points which determine the rent.

The West Germans have no such comprehensive scheme but are studying alternative ways of overcoming the rent-gap. The Federal Ministry for Regional Planning, Building and Urban Develop-

---

(1) Ministre van Volkshuisvesting en Ruimtelijke Ordening, Den Haag (1980), 'Huuraanpassingen in 1980'.

ment is especially concerned about rent differences in the subsidised sector. A government report argues that "there is now considerable variation in the rents payable for public sector (the term used in the translation for 'non-profit') apartments which are comparable from the point of value of the standard of living which they offer.....instances are known from Hamburg, for example, in which rents charged for apartments in the public housing sector to an identical standard of equipment range from DM4 to DM6 per sq. metre..... Numerous models have been developed in an attempt to solve the distortion in rents....which are increasingly regarded as unjust. As a rule, the aim of these models is to organise the rent structure of the entire sector or parts of the sector by means of a corrective mechanism, at least roughly on the basis of the differences in the value of the standard of living afforded."(1)

It is likely that some form of rent pooling which allows the non-profit associations to average costs over a proportion of the stock will be introduced to reduce the 'distortions'. However, there are uncertainties about the acceptability of such a solution:

"This involves the assumption that tenants in the public housing sector represent a community unit, as it were, in which the tenants of the older but well-equipped public sector apartments in particular and for which they pay comparatively low and stable rents are required to make a contribution towards the higher rents charged for newer apartments .....such redistribution

---

(1) Federal Ministry for Regional Planning, Building and Urban Development (1977) op.cit. Translation pp. 12-13.

would require a highly developed sense of fair-play and solidarity amongst tenants, since the proportion of tenants expected to bear additional costs is greater in all the proposed models than the proportion who would benefit". (1)

In France the rent-gaps in the private sector have been gradually reduced as rent controls have been eased although some tenancies that are still subject to the 1948 Rent Act continue to have very low rents. In the non-profit or H.L.M. sector the problem has not been of the same proportions as in the Netherlands and Denmark because of the power of central government, since 1953, to set maximum and minimum rents per square metre, which vary with location and the facilities provided but not specifically with the costs of construction. In 1953 the principle of 'loyer d'equilibre' on a building by building basis was rejected. According to this principle "one calculated the total cost and loan charge due on each building and, from this, one deducted directly the rent which was to be demanded in order to balance the charges incurred"(2) The application of the principle would have meant no rent pooling. Now H.L.M.s must meet all costs minus subsidies from rental income, subject to the maximum and minimum rent levels determined by central government. *Within* H.L.M.s some rent pooling is thus possible.

Rent pooling in the U.K. has avoided, in the public sector, the problems of rent gaps faced in the Netherlands and Denmark. Rent-pooling within H.L.M.s has reduced the severity of the rent-gap problem in France. The West German government is studying rent-

---

(1) ibid., p.13.

(2) Duclaud-Williams, R. (1978), op.cit., p.128.

pooling as a solution to rent-gaps in the non-profit sector. The significant rent differences which exist in the public sector in the U.K. are *between* rather than *within* local authorities. In part, these differences arise from differences in the age structure of the stock from authority to authority. These differences could be significantly reduced by a national rent pool. The idea was rejected without well-reasoned argument and analysis in the Housing Policy 'Green Paper' (1977). The Paper accepted the "continuation of disparities between rent levels in different parts of the country"(1) and rejects arguments for a national rent pool which would involve setting up a central account through which these authorities with relatively low housing costs could contribute to the costs of authorities with higher costs. It is argued that there is an important objection in principle to housing revenue account surpluses being transferred to tenants in other areas: "If high housing costs in certain area of the country have to be met by subsidy, it seem right that the cost of the subsidy should fall on the community as a whole, and not solely on local authority tenants in other parts of the country which happen to enjoy relatively low housing costs".(2)

However, why also should the benefits of low costs not be shared nationally rather than locally? The cost of subsidies need not of course be met solely by redistributions between tenants. Some net central government contribution raised from national taxation is still possible with rent-pooling. It is not a system for

---

(1) H.M.S.O. (1977B), 'Housing Policy: A Consultative Document', Cmnd 6851, p.86.

(2) ibid., p.87.

eliminating central government subsidies. A national rent-pooling system might work along the following lines:

An annual total current cost figure TC would be calculated for each local authority's housing stock. This cost would have to be met from rents R plus central government subsidies S plus a total contribution from rates L .

For each authority, $TC = R + S + L$.

For each local authority housing stock a notional valuation NV would be established which indicated the rental value of the property according to centralised principles (Like the 'points system in the Netherlands and the area and facilities criteria in France) .[1] The subsidy received would then be determined by TC - NV. If TC - NV was positive there would be a 'tax' on the authority (S could be negative).

In effect, all TC values and all NV values would be 'paid in' to a national pool, or national housing account. If $\Sigma TC > \Sigma NV$ then government subsidy would make up the differences.

$$\text{Thus} \quad \Sigma TC + \Sigma S = \Sigma NV$$

After payments into, or receipts from, the pool local authorities would have to meet

$$TC - S \text{ from } R + L$$

(If there is a payment into the pool S is in effect negative and TC plus the payment have to be met from R + L).

This leaves a local authority with some discretion over the rent

---

(1) A locational element in a points system could be used to reflect the 'value' of the locality e.g. access to facilities and to work.

level in its area for it can raise or lower the value of L. It could also determine how it distributed the burden of R amongst tenants.

Any relationships between rent paid and income level which were deemed to be inequitable could be altered by a national housing allowance (see Chapter Six).

## 5.11 Conclusions

Rent controls were first introduced, in each country, in war-time conditions and a prime objective was to prevent landlords obtaining 'excessive' amounts from tenants at a time when accommodation was in short supply. Governments thus sought to prevent 'exploitation' or to take away excess profits from landlords. Rent controls have not been sufficiently sophisticated in their structure or sufficiently adaptable to changes in circumstances to ensure that all of and only excess profits are removed. This objective might have been better achieved via other policy instruments such as adjustments to the taxation of landlords. Such taxation could have been related to individual landlords' recorded rates of return and thereby been far more specific in application. Excess profits are, of course, tackled by a variety of measures besides price controls in other sectors of the economy.

Governments have also tried to keep rents down to levels which households can 'reasonably' afford and have tried to limit the burden of rents on household budgets. These policies did not, however, prevent steady increases in real rents for much of the post-war period. The beneficiaries of any budget relief that

controls have brought have usually been sitting tenants, and not necessarily those households on the lowest incomes. This 'budget-relief' has been tackled in many countries in recent years by 'housing allowances', and these will be examined in Chapter Six.

Controls on the rents charged by suppliers who are recipients of subsidies may be viewed as measures to influence the effective incidence of the subsidy: to ensure that a proportion of the subsidy effectively goes to the tenants. There may be conflicts between the 'output' and 'distributional' objectives of the subsidy and the rent control. The more the proportion of the subsidy going to suppliers is restricted the less is likely to be the output response. Conditions other than rent limits may effectively influence the distributional implications of subsidies. As was shown in Chapter Three, suppliers can be required to let dwellings only to tenants who are receiving incomes below given limits or who are on government approved waiting lists.

A major aspect of rent determination policies in some countries has been an attempt to alter the 'pattern of rents'. Much of this has amounted to attempts to reduce 'rent-gaps' which have resulted from previous rent determination policies that have set cost-price rents in the non-profit sector and limitations on rent increases for older properties. More generally, measures to reduce rent-gaps can be seen as part of a set of rent determination policies which have attempted to influence the distribution of rent levels and achieve an equitable relationship between the characteristics of dwellings and the rent charged. The major problem, reduced to simple proportions, is that governments lack

clear perspectives on what rents should reflect if they are not to reflect simply the forces of supply and demand. Chapter Six will show that housing allowance systems can be more simply structured if rents are acknowledged to be an adequate proxy for the 'quality' of accommodation.

Governments' objectives in attempting to influence the general level of rents have varied from time to time. Immediate post-war objectives of preventing exploitation gave way, in many cases, in later years, to a desire to raise rents to increase supply. It has been shown however, that there is not a clear, simple, link between supply and rent levels.

The decline of the private rented sector cannot be explained adequately without examining those factors which have led to an increase in owner-occupation and these factors will be examined in Chapter Seven. Many factors besides rent levels are, obviously, involved. For example, rents increased more, in real terms, in the U.K. than in West Germany in the period 1954 to 1963, and more in relation to building costs, but there was very little production for the private rented sector in the U.K. and substantial production in West Germany.

The proposition that rent controls are the principal cause of the decline in the private rented sector in different countries is difficult to test precisely, because of data limitations, but the available evidence does not suggest that relaxations of rent controls have increased the production of rental accommodation or reduced the rate of decline in the sector. In fact, given that such relaxations have typically been combined with reduced security

of tenure, they may have accelerated the process of transfer of rented properties to owner-occupation as landlords have exercised their freedom to dispose of their property.

This suggests that many of the alleged consequences of rent controls need to be explained by the interaction of other sets of factors and that reductions in rent controls will not produce the results predicted by over-simplified models. Explanations of a decline of the private rented sector which rely solely on rent controls are naive. The level and pattern of subsidies for all housing tenures form a necessary part of a complete explanation as do slum clearance policies. The existence of a private rented sector which is larger in the other countries than in the U.K. cannot be explained by an absence of rent controls. All the countries have had rent controls and there appears to be no simple relationship between changes in controls and the size of the sector. Much of the privately rented accommodation in Europe has been supported by subsidies to landlords.

In recent years the private rented sector has been declining in each of the six countries. Although it is frequently argued in Britain that rent controls are responsible for the decline of the private rented sector and a lack of controls would reverse the decline, this comparative analysis provides no evidence to support the proposition that rent controls are the principal cause of decline and much evidence to suggest that many other factors have played an important part in the process of decline.

The 'rent-gap' problem illustrates the distortions in rents that arise from (1) limiting rent increases for older but not newer

properties and (2) allowing historic costs to play a major part in the rent determination process. The rent-gap problem is less significant in the public or non-profit sectors if rent-pooling is promoted. The larger the proportion of the rented stock over which pooling is allowed the less are the distortions which arise between rent levels for properties with similar characteristics but different construction dates. While rent pooling within local authorities reduces the significance of the rent-gap problem in the U.K., a national rent pool could help reduce the disparities in public sector rent levels that exist between local authorities.

The analysis of rent-gaps exposes a number of conflicts within government policies towards the rented sector. The receipts of suppliers need to be high enough to cover costs including normal profit in the long run. The amounts paid by tenants need to be low enought to induce sufficient demand to fill the dwellings. In a free market, in equilibrium, the two payments will be equal, but, when governments have objectives regarding the volume of rented property to be supplied and the rents to be paid, the required amounts are not necessarily equal. Even when governments have no particular supply objective, controls on the rents of old properties can keep rents below those charged for new dwellings. If new production is required, but rent-gaps are unacceptable, either because charging 'high' rents would lead to empty dwellings, or because high rent levels create problems of equity between those in new and those in older accommodation, subsidies either to suppliers or tenants are necessary to bring down the payments made for the use of new rented dwellings. Subsidies to tenants are the subject matter of the next chapter.

## 5.12 Appendix: Rented housing stock: statistics

The following information supports the comments on the size of the private rented sector, in each country, that were made in section 5.7.

In the Netherlands, 80 per cent of the housing stock was privately rented in 1920; 60 per cent in 1947;[1] 28.8 per cent in 1967; and 20.7 per cent in 1975.[2]

In Denmark, 67 per cent of the stock was rented in 1950,[3] in 1970, 51 per cent was rented including 28.1 per cent which was privately rented; in 1977, 42 per cent was rented including 19.7 per cent which was privately rented.[4]

In France, 65 per cent of the stock was rented in 1954; in 1973, 54 per cent was rented, 43 per cent was 'non-H.L.M. rented', but this includes 11.5 per cent of accommodation 'occupied free of charge in relation to work or used as farmworkers accommodation'.[5] Memento Statistique 1974[6] suggests that 32.8 per cent of principal residences were rented but not H.L.M. or 'free'.

In Ireland, 47 per cent of the stock was rented in 1946.[7] In 1961, 40.2 per cent was rented, 17.2 per cent private rented; in 1971, 31.2 per cent was rented, 13.3 per cent privately rented;[8]

---

(1) Centre for Environmental Studies (1978), op.cit.

(2) Priemus, H. (1980), Personal communication, 9th December.

(3) Federal Ministry for Regional Planning, Building and Urban Development, Bonn, 'Report on Denmark: The Owner Occupation Rate', op.cit.

(4) Danmarks Statistik, Number 176, 23rd August 1979.

(5) Centre for Environmental Studies (1979B), op.cit.

(6) Ministere De L'Environment et du Cadre De Vie, (1976), op.cit.

(7) United Nations (1957), 'Annual Bulletin of Housing and Building Statistics for Europe'.

(8) National Economic and Social Council, Dublin (1975), op.cit.

in 1977, 13 per cent was privately rented.(1)

In England and Wales the 'private rented and other' sector as a proportion of the stock was: 1914, 90 per cent; 1938, 58 per cent; 1960, 32 per cent; 1971, 19 per cent; 1976. 16 per cent.(2) Figures for the U.K.(3) show 'rented from private owners' as 1950, 45 per cent; 1960, 26 per cent; 1972, 14 per cent. ('Other tenures' were: 1950, 8 per cent; 1960, 6 per cent; 1972, 5 per cent;) Private rented and other tenures were 1974, 17 per cent; 1976, 15 per cent; 1978, 14 per cent; 1979, 13 per cent.

In West Germany, 'non-owner-occupied accommodation' as a proportion of the stock has fluctuated: 1950, 59 per cent; 1956, 63 per cent; 1961, 66 per cent; 1965, 65 per cent; 1968, 64 per cent; 1972, 64 per cent; 1978, 62 per cent. Privately rented accommodation has been a substantial part of this total but official statistics do not identify private rented accommodation separately. Certain estimates, however, indicate the size of this sector. Hallett(4) suggests that in 1972 there were "something like 6.2 m rented dwellings in private ownership" out of a total stock of 20.6 m dwellings i.e. 30 per cent. A Centre for Environmental Studies report(5) suggests that 33.8 per cent of the stock was privately rented in 1972 but this estimate includes almost one million pre-1948 dwellings owned by non-profit associ-

---

(1) Department of the Environment, Dublin (1978), op. cit.

(2) H.M.S.O. (1977), Housing Policy Technical Volume, Part I.

(3) H.M.S.O. (1972, 1973, 1975, 1976, 1981) 'Social Trends'.

(4) Hallett, G. (1977), op. cit., p.19.

(5) Centre for Environmental Studies (1979A), op.cit.

ations. If this element is excluded, the proportion is about 29 per cent. If accommodation rented by employers is included the proportion is 41.5 per cent. A private communication from the West German Federal Ministry for Regional Planning, Building and Urban Development.(1) states that 60.8 per cent of the total rented stock of 23.7 dwellings in 1978 was rented (14.4 m dwellings). Of these, rented dwellings, about 4 were subject to direct subsidies. The unsubsidised rental sector was thus about 10 m dwellings or 42 per cent of the stock.

---

(1) Dick, E. (1980), Letter and tables, October 1980.

# CHAPTER SIX

# HOUSING ALLOWANCES

Contents


| | | Page |
|---|---|---|
| 6.1 | Introduction | 271 |
| 6.2 | The aims of housing allowances and some associated propositions | 274 |
| 6.3 | The principles that determine the amounts of housing allowances paid | 279 |
| 6.4 | Housing allowances and housing need | 285 |
| 6.5 | Housing allowances and the supply of accommodation | 297 |
| 6.6 | Housing allowances and the pricing of housing services | 303 |
| 6.7 | Income supplements compared with housing allowances | 306 |
| 6.8 | A universal housing allowance | 312 |
| 6.9 | Conclusions | 314 |
| 6.10 | Appendix : housing allowance statistics | 320 |


List of Tables


| | | |
|---|---|---|
| Table 6.1 | Proportions of households in receipt of housing allowances c.1976 | 274 |
| Table 6.2 | Changes in the proportion of income spent on rent as a result of housing allowances : The Netherlands 1975/6 | 288 |

List of Tables (continued) Page

Table 6.3 Percentage take up of rent allowances and rent rebates. Estimates for England and Wales, 1979 293

Table 6.4 Age of dwellings occupied by recipients of Wohngeld, 1976 300

Table 6.5 Money value of housing allowances and changes in income at four rent levels 320

Table 6.6 Rent quota before and after subsidy, at three income levels 321

Table 6.7 Housing allowances as a percentage of rent 323

Table 6.8 Marginal rates of 'tax' implied by housing allowances 324

List of Figures

Figure 6.1 Effect of housing allowance on rent quota at average rent level 287

Figure 6.2 Marginal Tax Rates (M.T.R.) implied by housing allowance schemes at three rent levels 296

Figure 6.3 Object subsidies, housing allowances and the age structure of the housing stock 305

Figure 6.4 The welfare effects of price and income changes 305

Figure 6.5 Effect of housing allowances on expenditure possibilities. 311

## 6.1 Introduction

This chapter builds on the brief introduction to housing allowances presented in Chapter Four. This analysis will attempt to evaluate a number of theoretical propositions about housing allowances. The evidence will be used to draw conclusions about the arguments advanced in Britain for housing allowances generally and a 'universal housing allowance' in particular.

Housing allowances may be defined, simply, as payments to households which are intended to reduce the costs of housing consumption. In order both to make this definition more explicit and to contrast housing allowances with other housing policy instruments it will be useful to identify four basic types of housing subsidy. Two are subsidies to consumers and two are subsidies to suppliers.

(A) Pure Subject Subsidies (which are also known as Income Supplements.

These are payments to households, in any tenure, which depend only on household size and income and are intended to help meet housing costs.

(B) Conditional Subject Subsidies (which are also known as Housing Allowances).

These are payments to households which depend on household size, household income, and the price of housing services consumed.

Some writers refer to housing allowances as price reductions. It will be shown that this is a misleading description. Housing allowances are typically cash handouts although for purely administrative purposes the money is sometimes paid to landlords who then

reduce accordingly the amounts they require from tenants.

(C) Pure Object Subsidies

These are payments to housing suppliers which contribute to building, management, or interest costs and are unrelated to the characteristics of the occupants of the dwellings. It might be argued that British Exchequer subsidies to local authority housing have taken this form, although in allocating dwellings authorities may, of course, apply their own criteria which take account of household circumstances.

(D) Conditional Object Subsidies

These are payments to housing suppliers which are given on the condition that (a) the occupants of the dwellings are in certain economic or social groups and (b) they are charged prices or rents within certain limits. Many of the subsidies given to non-profit housing associations in Europe are of this type and examples were given in Chapter Four.

The case for housing allowances thus involves: firstly case for subject as opposed to object subsidies, (in a number of European countries the object versus subject subsidies debate has been central to arguments about reducing aid to non-profit or public housing and putting increasing emphasis on housing allowances) secondly the case for conditional, as opposed to pure, subject subsidies, resting largely on the relevance of housing costs as a determinant of the value of household assitance.

In the 1960s and 1970s there was, in mamy European countries, a switch in the balance of government housing expenditure away from

object and towards subject subsidies. All the housing allowance schemes to be examined in this chapter have been introduced since 1967. They have become more significant as the rented markets have become less constrained by rent controls. Housing allowances as a proportion of direct subsidies (which involve payments from the Exchequer: see Chapter Four) have greatly increased in recent years in each country as has the number of recipients. In West Germany, for example, they represented 6.5 per cent of direct housing subsidies in 1968 and 13.5 per cent in 1975(1).

Payments to households to help meet housing costs have existed in France since 1948. This personal subsidy system had been expanded and altered in structure on several occasions by the time the Barre Report(2) recommended in 1975, an extension of 'aide a la personalisee au logement' (A.P.L.) Denmark has had a system of housing allowances (Boligsikring) since 1967. The Netherlands' 'Individuele Huursubsidie' dates from 1970. Individual household subsidies were introduced in West Germany in 1965 but the present 'Wohngeld' is a result of expansions of the system in 1970 and 1971. The British system of rent rebates (public sector) and rent allowances (private sector was introduced in 1972, although there were earlier limited and localised rent subsidy schemes.(3)

---

(1) Bundesministerium fur Raumordnung,Bauwesen und Stadtebau (1977) 'Wohngeld and Mietenbereicht', part translation 'Report on Accommodation Allowances, Part B',British Library RTS 12382A, p.1.

(2) See Local Finance (1977), 'Reform of Housing Finance in France: Barre Report', Vol.6, Number 1, 1 Feb., pp.10-23.

(3) A limited form of housing allowance scheme which relates the rents of council house tenants to household income has operated in Ireland since 1973. The small scale and the paucity of detailed information about this scheme preclude further discussion. See:-

National Economic and Social Council, Dublin (1977),'Report on Housing Subsidies', pp.31-32.

Table 6.1 : Proportions of households in receipt of housing allowances c 1976.

| | % of Households supported by housing allowances | |
|---|---|---|
| | Tenants | Owner-occupiers |
| West Germany | 10 | 1 |
| France | 16.5 | 7.5 |
| Netherlands | 17 | 0 |
| United Kingdom | 15 | 0 |
| Denmark | 14 | 0 |

Sources: Dick, E.(1); Social Trends 1981(2); Hansard(3); Report on Denmark for West German Government(4); Sondergaard, J.(5)

The West German and French schemes apply to owner-occupiers and tenants, the others only to tenants. As Table 6.1 shows, a smaller proportion of households has benefited from housing allowances in the United Kingdom than in France, the Netherlands or Denmark.

## 6.2 The aims of housing allowances and some associated propositions

Housing allowances are often associated with a view of the housing market which reflects a desire for a free interaction between demand and supply subject to assistance being provided for those on lower incomes. In the Netherlands, for example, it has been

(1) Dick, E. (1977), 'Distribution of Housing Costs between the Public Sector and Individuals', Discussion paper prepared for U.N.E.C.E. Seminar on Housing Policy, Turku, Finland July 1977. p.19.

(2) H.M.S.O. (1981), Social Trends.

(3) Hansard, 3 December 1976.

(4) Federal Ministry for Regional Planning, Building and Urban Development, Bonn, 'Report on Denmark : The Owner-Occupation Rate' (Undated).

(5) Sondergaard, J. (1978) 'Direct og indirect tilsud til boligsforbruget', S.B.I. Rapport 107, In part translation 'Direct and Indirect Housing Subsidies', British Library RTS 12384A, 12385A, 12386A, 12387A.

argued that the Individuele Huursubsidie was introduced at a time when the "government's guiding principle was that the housing market should begin to operate as a free market..... on the basis of supply and demand" and housing allowances were to "correct the consequences of an unequal distribution for the poorest members of society"(1); and similar views have been expressed with respect to the desirability of introducing housing allowances in the U.K.(2).

The aims of housing allowandes should be seen in the historical context of a relaxation of rent controls while simultaneously a 'rent-gap' problem remained (especially in West Germany, the Netherlands and Denmark ; see Chapter Five). With higher rent levels low income households needed extra support if no more than a 'reasonable' proportion of incomes was to be spent to secure 'decent' accommodation. Rent-gaps were associated with 'inconsistent pricing'.

The term 'consistent pricing' will be used here to mean that similar principles, which relate the price per unit of accommodation (rents or imputed rents) to some measure of the current value of the flow of housing services, govern the price of all units of accommodation within a country. Thus if all rents were set by demand and supply or by 'quality' as determined by central government there would be consistent pricing, but if some rents were set by historic costs or by local authorities according to judgements which varied from area to area, there would be inconsistent pricing.

---

(1) Wiewel, W. (1979), 'Housing Allowances and the Dutch Rent Subsidy Program', Rand Corporation Paper, p.2.

(2) Pennance, F.G. (1969), 'Housing Analysis and Policy', Hobart Paper 48, London, The Institute of Economic Affairs, p.29.

Where rent-gaps existed some rents were related to historic costs. In this situation, with housing costs varying in a random manner between households, governments may decide to introduce policies which encourage consistent pricing or they may pay housing allowances which compensate for inconsistent pricing. In practice there have been combinations of both approaches.

Housing allowances can be seen as a method of helping households bid for higher quality accommodation (e.g. West Germany[1] and Denmark)[2] or as a method of reducing the proportion of household income spent on rent (e.g. the Netherlands)[3]

Alternatively, housing allowances may be seen as a reaction to the failure of object subsidies to distribute aid according to some criterion of need. In a number of countries arguments have been advanced which have stressed the necessity of a rational basis for housing subsidies, gearing them to income, family size and housing costs. This is in accord with the Barre Committee's recommendations in France[4] and Cullingworth's view of the rent allowances and rebates in Britain.[5]

---

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1978), 'Current Trends and Policies in the Field of Housing Building and Planning', p.13.

(2) Federal Ministry for Regional Planning, Building and Urban Development, Bonn,'Report on Demark' op.cit.

(3) Ministerie van Volkshuisvesting en Ruimtelijke Ordening (1977) 'Individuele Huursubsidering: een Kwantitative analyse van het subsidietijdvak 1975/6', part translation 'Individual rent subsidisation', British Library RTS 12388A, 12389A, 12390A.

(4) Local Finance (1977), op.cit., p.18.

(5) Cullingworth, J.B. (1978), 'Essays in Housing Policy', London, Allen and Unwin, p.133.

There has been a close relationship in western Europe between moves towards subject subsidies and the elimination of crude housing shortages. Typically this has been fostered by the notion that the emphasis should move from "creating supply to distributing supply" (Duwendag [1]). In the distributional process governments have claimed to prefer allowance systems because they help most those in greatest need. In fact, the shift away from object subsidies has conveniently allowed governments to reduce their total budget allocations to housing as extensions of housing allowance schemes have moved in tandem with reductions in aid to non-profit or public housing.

Summarising, housing allowances have at least three aims.

They are:-

(a) An increase in the quality of housing consumed by certain households.

(b) A reduction in the proportion of income that some households spend on housing.

(c) Improved equity in the distribution of housing aid.

Critics of housing allowances have produced arguments which may be summarised as follows:-

(i) Housing allowance schemes do not result in significant increases in hoasing consumption or housing quality because these depend on supply-side factors which allowances leave unaltered.

(ii) The distributional consequences are not as advocates claim and

---

(1) Duwendag, quoted in Priemus, H. (1977) 'Individuele Huursubsisdie Evaluatie van een Instrument von Volkshuisvestings Beleid', part translation, 'An Evaluation of Individual Rent Subsidies as an Instrument of Housing Policy', British Library RTS 12391A.

allowances do not concentrate help on those in greatest need. This is because in specific schemes the payments are not sensitive enough to incomes, housing costs or household size and many of those in 'need' fail to claim the allowance. Allowances can furthermore result in price and rent increases so that benefits accrue to landlords.

(iii) Housing allowances are inferior in welfare terms to income supplements which do not depend on the price of housing services.

These three arguments may be related to various perceptions of housing problems.[1] Arguments that rest on points (i) and (ii) are, in effect, claiming that housing problems are not simply income distribution/housing cost problems while those resting on (iii) are claiming that they are *only* income distribution problems.

We have, implicit in the three aims and three counter-arguments given above, six broad propositions about housing allowances: three favourable and three against. An evaluation of these propositions poses three questions:-

A. In practice do housing allowances give most help to those in greatest need?

B. Do the payments received result in greater housing consumption and improved quality or do supply-side constraints prevent this occurring?

C. Do housing allowances produce a more equitable distribution of housing subsidies than either object subsidies or income supplements?

---

(1) See the alternative perceptions suggested in Chapter Three.

The analysis of subsequent sections will be related to these questions but first the principles used in the different countries to determine the amount of housing allowance granted to specific households are set out.

## 6.3 The principles that determine the amounts of housing allowances paid.

The money value of the housing allowance is, in each country, an increasing function of household size and asking rent and a decreasing function of money income. The allowance is limited by mechanisms and rules which vary from country to country. There are (variously) income limits above which the allowance is not paid or asking rent limits or a statutorily defined maximum subsidy. The specific elements are presented below.

### West Germany: Wohngeld

An early draft of the plans for Wohngeld argued that payment should be based on

$$A = R - aY$$

where A is the allowance,

R the asking rent and

'a' is a fraction of household taxable income (Y) which is a 'bearable' level of housing expenditure.

This formula was, however, rejected, because it was argued that it would allow households with similar incomes to consume different qualities of housing at a similar cost to the household. This would lead to 'over consumption' of housing and would inflate prices for higher quality housing while devaluing the lower quality stock. So, instead, the system ensured that renters (and owners) at above

average rents (and prices) have to bear a higher fraction of expenditure. The current system is based on

$$A = R - aY - D$$

'a' is statutorily determined, increasing with income and falling with family size. Its limits are 0.05 to 0.22. D is a 'deduction factor' which reduces the value of the allowance if the asking rent is above a prescribed rent per square metre. This rent limit varies with family size and location.

There are annual income limits for eligibility. (In 1977, they were:- one person DM 17,000; a couple DM 23,180 plus DM 3,600 per child). These limits effectively ensure that a couple with two children and an income greater than the average are not eligible.

France : A.P.L.

The aide personnolisee au logement (A.P.L.) is based on the annual taxable income of the household which is adjusted according to household size. (In 1978 if a couple were both working income was reduced by 1,000 Francs if they had no children, 2,000 Francs if they had one or two children, 3,000 Francs if they had more than two children.) This adjusted income is shown below as y.

A coefficient N is determined according to family size. This varies from 1.6 for a single person to 4.3 for an individual or couple with four dependants and increases by 0.5 for each further dependant.

If the value of the allowance is given as 'A' then

$$A = K \times B$$

$$K = \frac{0.95 - ay}{4,500 \times N}$$

$$B = b + c$$

$$b = R - ay$$

ay = a proportion of adjusted income

c = an allowable amount of charges.

R = asking Rent

Those buying a new house are expected to meet housing payments up to 25 per cent of income. Tenants and those purchasing a 'second-hand' house have to make contributions equal to:-

10 per cent of the first 4,500 F. x N income per annum

27 per cent of the next 4,500 F. x N to 9,000 F. x N

46 per cent of income above this.

A.P.L. is normally paid monthly directly to the landlord or mortgagee who then adjusts the amount due accordingly.

Netherlands: Individuele Huursubsidie

There are income and rent limits. The income limit was 38,000 DF1 in 1978 (Average income was at about this level). The rent limits were a minimum of 2,160 DF1 and a maximum of 6,7500 DF1 per annum for a married couple or family (The average rent for such a household was about 3,000 DF1).

$$A = R - aY - D$$

a is an 'expected' proportion of taxable income to be spent on rent (excluding charges for utilities). This varies from 0.10 for those on the minimum wage to 0.174 for those at the upper income limit. D is a 'deduction factor' which limits the value of the allowance at higher income levels. "The rationale for the

discount is that there is some relation between price and quality and that people should pay for extra quality; the discount is also intended to limit the demand for high-priced housing."(1)

Application can be made to any municipality between April and October for a subsidy from July to June. Income data is checked against a computerised national record. Subsidies are paid quarterly. Non-profit tenants can apply directly to their association. In this case the association receives the allowance and the tenant gets a direct rent reduction. The Dutch system was modelled on the German Wohngeld. The Dutch examined the West German system in depth before introducing the system in the Netherlands, but they limited it to tenants, in contrast to West Germany where the allowance is available in principle to owner-occupiers, and they made less distinction by household size. In fact, household size is less significant in the Dutch system than in any of the others. There are two basic scales of benefit; one for single people and another for married couples with no change in the amount paid according to the number of children in the family.

Denmark : Boligsikring

Boligsikring basically compensates the tenant for 75 per cent of the difference between the asking rent and a 'suitable rent'. The 'suitable rent' is expressed as a proportion of income. This increases with rising income and decreases with increasing family size. At higher rent levels the subsidy is subject to deductions to ensure that the system is not 'open ended' in it support.

---

(1) Wiewel, W. (1979), op.cit., p.3.

Thus,

$$A = 0.75\ (R - aY) - D, \text{ where}$$

where D is a 'deduction factor' similar to that used in the Netherlands. There are income limits which vary with family size. In 1978 the limit for a family with two children was 92,000 Kroner per annum (Average annual household income was about 85,000 Kroner). Dwellings must satisfy minimum quality standards.

United Kingdom : Rent allowances and rent rebates

In the U.K. the rent allowance and rent rebates are not subject to prescribed maximum rent and income limits but the weekly amount of the allowance is limited. The maximum value in 1980-81 was £23 per week or £25 per week in London. In contrast to the other countries, tenants are expected to meet a given proportion of the rent from their own weekly income rather than pay a given proportion of income in rent.

$$A = R - M.$$

where M = minimum weekly rent.

M varies according to income and family circumstances. The system is dependent on an annually determined 'needs allowance'. This varies with family size (In 1980-81 it was : single person £34.90; married couple £51.70; couple or single person and a child £61.30 plus £9.60 for each additional child).

If income is less than the needs allowance,

$$M = 0.4R - 0.25\ (n - Y)$$

where n = Needs allowance.

In practice, the most likely value for M in these circumstances is

zero so that those with incomes below the needs allowance are likely to receive a rent rebate or allowance equal to the full amount of their rent.

If $Y > n$

$$M = 0.4\ R - 0.17\ (Y - n)$$

Thus $R - M = A = 0.6\ R - 0.17\ (Y - n)$.

Income is considered before tax and other deductions and includes pensions and child benefit but there is a standard deduction of (£9.60, 1980-81) for a sole earner and another (£14.60, 1980-81) if both husband and wife are working. The system is administered by the local authorities. Council tenants receive the allowance as a straightforward rent deduction.

It can be seen that while each system takes account of income levels, household size, and rent levels in determining the amount of allowance to be paid, there are variations in the relative importance attached to these factors. The significance of rent levels, in particular, varies from country to country. The British system does not have an upper rent limit while the Danes severely restrict allowances at above average rent levels. The implications of this will be considered in section 6.6. The significance of the number of children in a family also varies from country to country. In France and Britain for example, each additional child affects the size of the allowance while in the Netherlands there is no variation according to the number of children in a family. The French and West German systems subsidise owner-occupiers as well as tenants. In the French case this has been part of a policy of overall rationalisation and an attempt to

harmonise subsidy payments between different sectors in accord with the Barre principles. In West Germany very few owner-occupiers receive the allowance, it being available only to those on very low incomes who often cannot meet the other conditions necessary to become house purchasers, principally the loan qualifying requirements set by the financial institutions.

## 6.4 Housing allowances and housing 'need'

Housing allowance schemes measure 'need' by taking account of a number of factors. The variation of allowances with rent and income levels can be examined by inspecting the tables that are used to determine payments. These have been obtained for the three countries (Denmark, the Netherlands and the United Kingdom) for a recent year[1] where allowances apply onto the rented sector. Tables 6.5 to 6.8 (In the Appendix) give detailed information about the variation of allowances with rent and income levels.

In each country, for any rent, the level of subsidy falls as income rises. At above average incomes rents have to be at least twice the average rent before an allowance is paid in the Netherlands and the U.K. but in Denmark rents have only to be just above average. In the U.K. and the Netherlands allowances increase substantially as rents rise above average rents, while

---

(1) The Netherlands: Ministerie van Volkshuivesting en Ruimelijke Ordening (1978), 'Individuele huursubsidies, mei 1978'.
Denmark: Boligselskabernes Landsforening (1978), 'Boligsikring 1978'.
United Kingdom : Department of the Environment (1980) 'There's money off rent : Rent Rebates and Allowances'.

in Denmark they increase little. The Danish system is geared to ensuring that households can afford the average rent but does not encourage households to seek more expensive dwellings. The Dutch system concentrates benefits on low income households paying above average rents and both the Dutch and British systems compensate for relatively high rents paid by low income families to a greater extent than the Danish system does.

It can be seen from the tables (In the Appendix) that, if the rent is high enough, one can obtain a subsidy in the U.K. at above average incomes. In contrast, the Dutch and Danish systems are more concentrated in their effects. The Dutch allowances are significant only at above average rents and below average incomes and the Danish allowances make only a small contribution at above average income levels.

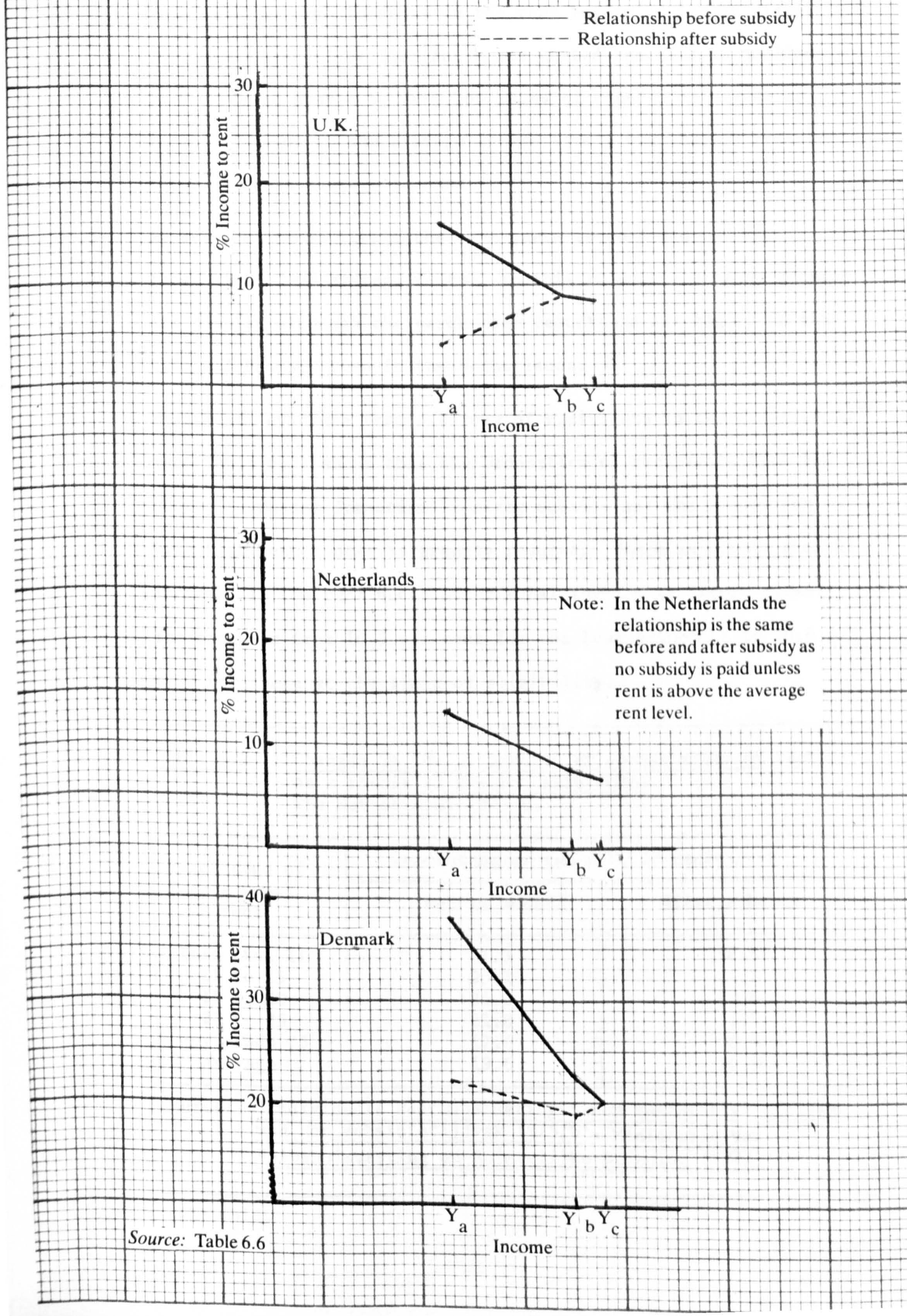
The systems can be further compared by examining their effects on the percentage of income devoted to rent. This is referred to in the translation of the Dutch Report on the housing allowance[1] as the 'rent quota'. Rent quotas before and after subsidy are shown in Table 6.6. and some of the data is summarised in Figure 6.1.

A major contrast between the British system and the other two systems is the effect on the rent quota as incomes rise for a given rent level. Movements from low to average incomes increase the proportion of income that has to be spent on rent in the U.K. but it falls in Denmark and the Netherlands. (In the latter case simply because no subsidies are paid). The large rent quota reductions for those on the lowest incomes in the U.K. is at the

---

(1) Ministerie van Volkshursvesting en Ruimelijke Ordening (1977), op. cit.

Figure 6.1 Effect of Housing Allowance on rent quota at average rent level




*Source:* Table 6.6

expense of a large increase in the rent burden as income rises. This much observed problem for means tested benefits is ameliorated in the Danish system by very low rates of benefit reduction as income rises up to the average income level, but sharply reducing rates at above average incomes.

At average income levels the rent quota is only reduced for those with above average rents. In this respect the three schemes are similar although the percentage reductions are higher in the U.K. and Denmark than in the Netherlands.

Additional evidence from a survey of recipients in the Netherlands[1] (see Table 6.2) shows that the proportion of recipients with low quotas increases dramatically after subsidy and the proportion with high rent quotas is greatly reduced. There is also a gradual increase in the rent quota after subsidisation as income rises. The range is from 10.9 per cent for the lowest incomes to 20.6 per cent for those at the limit of eligibility.

Table 6.2 : Changes in the proportion of income spent on rent as a result of housing allowances. The Netherlands 1975/6.

| Percentage of Income spent on rent | Percentage of the 348,320 recipients | |
|---|---|---|
| | Before subsidy | After subsidy |
| Less than 11 | 1.3 | 58.5 |
| 11 to 15 | 25.1 | 21.7 |
| 15 to 20 | 34.2 | 17.6 |
| 20 to 25 | 21.8 | 1.3 |
| More than 25 | 17.6 | 0.9 |
| Average | 19.6 | 12.5 |

Source: 'Individuele Huursubsidering : een Kwatatative analyse van het subsidietijdvak 1975/6'. Ministerie van Volhshuisvesting en Ruimtelijke Ordening (1977)

(1) ibid.

It is clear from the evidence in the tables that the largest subsidies do not go to those with the lowest incomes. Housing allowance schemes have to cope with the inequalities of two distributions : one relating to incomes, the other to rents. If there was little variation in rent levels from one location to another and rents adequately reflected the standard of accommodation, policy makers could rationally decide that the 'need', for assistance was mainly a function of income (although the general level of need might vary from year to year in response to changes over time in the relationships between incomes and rents).

Such a situation is, however, hypothetical for rents do vary considerably within each of the countries considered. In Denmark, for example, there are differences in rent levels that are associated with the age of properties. It has been seen that despite these variations housing allowance payments vary less with rent levels than in the other countries. The Danes are clearly relying on rent harmonisation policy (discussed in Chapter Five) to reduce the rent differences rather than simply using housing allowances to compensate for the differences. In contrast, Dutch governments faced with a similar 'rent gap' problem give substantial help to households with high rents. This is partly a recognition of the failure of other policies to reduce rent-gaps. Pfieffer[1] has argued that the West German Wohngeld exhibits insufficient variation with rent levels and location and, therefore, the scheme gives unequal treatment by region because the same rent level buys accommodation of contrasting quality at different locations. Thus,

---

(1) Pfeiffer, U. (1976), 'Housing Policy in the Affluent Society' (Paper supplied by the author. Pfieffer has been the principal Civil Servant responsible for housing policy in West Germany).

those in the highest rent cities are helped less than those in lower rent areas. Eight of the federalstates of West Germany have introduced supplementary income-related assistance to compensate for particularly high rents.(1)

In Britain, the absence of an upper rent limit for the payment of allowances is parly a response to the problems associated with the wide geographical variations in rent levels. However, households in high rent locations may still receive proprtionately less than those in lower rent locations. As Table 6.6 shows, a household at the low income level has to find 13.1 per cent of income to meet a rent of $R_4$ while only 3.9 per cent of income is necessary to pay $R_2$. If $R_4$, in a high rent location, buys only the same quality of accommodation as $R_2$, in a low rent location,(2) it can be argued that the low income househod in the high rent location is helped less than a low income household in a lower rent location.

One might contend that a housing allowance system is coping with housing need if it gives households only just enough to buy adequate accommodation. If rents vary with location what is sufficient in one area will be insufficient in another, and rent will be a poor proxy for quality. There are five policy options for governments in these circumstances.

---

(1) Bundesministerium fur Raumordung, Bauwesen und Stadtebau (1977), 'Wohngeld und Mietenbericht', part translation 'Report on Rents Part C; British Library RTS, 12383A, pp.9-12.

(2) Which is quite possible given the geographical variations in rents (See section 5.10 and Housing Policy Technical Volume Part III, Table VIII.28).

First, to accept rent as a market signal and a proxy for a package of attributes including the quality of the dwelling and the general desirability of the area. Rents may then be said to represent quality as long as 'quality' is re-defined to include all these attributes. This policy option stresses the allocative functions borne by rent variations.

Second, do nothing if high rents in some locations are a result of local policy decisions. In these circumstances central government might claim that local government should accept the consequences of its decisions and introduce, if it wishes, local housing allowance schemes to help low income households.

Third, central government could choose to vary allowances with location.

Fourth, the government could attempt to reduce rent differences between areas by variations in subsidies to housing suppliers and by setting rules for the public or non-profit sector which enforce consistent pricing.

Fifth, the government could closely define quality in terms of a minimum provision of facilities for households of different sizes, and then by means of rent regulations and/or housing allowances relate the amounts paid by individual households to both the quality of the dwelling and household circumstances.

The operation of housing allowance schemes shows that the first option is frequently selected. Elements of the second option are found in West Germany where, as has been seen, there are locally financed supplementary allowances, and in Britain where local authorities with rents of £1.50 or more above the average

(1981) can apply for central government authorisation to pay a more generous level of rent rebate. Neither the West German nor British example amounts, however, to a nationally organised and financed system of local variations in housing allowances equivalent to the third option.

There are some examples of the fourth option. Object subsidies vary with location in France and there have been attempts to place non-profit sector rents in France, West Germany and Denmark on an internally consistent basis, while in the Netherlands a 'points system' process of rent determination has been adopted to relate quality to asking rent (see Chapter Five). The brief move in the early 1970s to 'fair rents' in the public sector in Britain was another attempt at consistency at the expense of local autonomy.

Although the fifth option has not been adopted in any of the countries, some allowance systems, the Danish for example, do require dwellings to be of a minimum standard for any allowance to be paid. Furthermore, the 'points system' in the Netherlands does attempt to reflect varying standards in the asking rent. If policies to achieve consistent pricing were successful a major reason for adopting rent allowances in preference to income supplements would no longer be valid. However, in none of the countries investigated do the necessary conditions obtain.

Housing allowances alone cannot, of course, ensure that 'most help goes to those in greatest need' for other aspects of housing policy can work against an equitable distribution of subsidies. For example, subsidies to owner-occupiers tend to increase with

income especially in those countries with 'open-ended' forms of mortgage interest tax relief. (see Chapter Seven). Even in France and West Germany, where the housing allowance schemes formally extend to owner-occupiers, very few home owners benefit (see Table 6.1) mainly because households on low incomes are unable to obtain the loans necessary to enter the market.

Low rates of take-up prevent housing allowance schemes reaching all those eligible for benefit. The Dutch scheme has an estimated take-up rate of only 76 per cent despite what is claimed to be "extensive advertising"(1) in newspapers and on television. The Department of the Environment has estimated the take-up of rent rebates in England and Wales in 1979 to be 72 per cent and for rent allowances 50 per cent. The figures for types of household are given in Table 6.3. The Child Poverty Action Group have argued that "poor families with children who are in need of the most financial support, are the group least likely to take-up rebates". (2)

Table 6.3: Percentage take-up of Rent Allowances and Rent Rebates. Estimates for England and Wales 1979.

| | Rent Rebates | Rent Allowances |
|---|---|---|
| Households without child | 82% | 51% |
| Two Parent families | 44% | 33% |
| One Parent families | 50% | N.A. |
| All households | 72% | 50% |

N.A. Estimate no available.

Source: adapted from Goss, S. and Lansley, S. 'What Price Housing', SHAC 1981 Research Report 4 Table 2.3 quoting Parliamentary answer by Geoffrey Finsberg, December 2 1980.

(1) Wiewel, W. (1979), op.cit., pp.4 and 8

(2) Child Poverty Action Group (1981), 'Back to the Drawing Board - A response to the consulation paper "Assistance with Housing Costs",' p.18.

In Britain, West Germany and the Netherlands a high proportion of allowances are paid to pensioners (Netherlands 43.5 per cent 1975/6; West Germany 67.4 per cent 1976; England and Wales over 60 per cent 1979). In West Germany "the allowance is principally a means of providing assistance to those who are not in employment"(1) (Only 14.2 per cent were in employment in 1976). The high proportion of pensioners is reflected in the distribution of allowance by household size. In West Germany 62.7 per cent of recipients were 'one person households' and a further 18.1 per cent were'two person households' while only 7.6 per cent were in households of five persons and more. Over 80 per cent of recipients of housing allowances in England and Wales are households without children. When a high proportion of recipients are in a particular social group and that group is already in receipt of state subsidies (e.g. pensioners, unemployed) it may be administratively cheaper to combine housing allowances with these other payments and this might also increase take-up rates.

A household must lose some benefit as income rises, if allowances are to give most help to those on lower incomes, but if this 'taxation' effect is large there may be consequences for household behaviour which governments consider undesirable. It has been claimed that high 'marginal taxation rates' implicit in housing allowance schemes affect the willingness of workers to obtain additional earned income and thereby influence the supply of labour (e.g. Dick's comments on housing allowances schemes in West Germany, France and the Netherlands,)(2) This raises

---

(1) Bundesministerium fur Raumordnung, Bauwesen und Stadtebau (1977) op. cit., British Library translation RTS 12382A, p.9

(2) Dick, E. (1977), op. cit., p.22.

the question 'Are significant reductions in benefit as income increases a necessary feature of housing allowance systems?' Information relevant to this question can be obtained by an examination of marginal taxation rates (M.T.R.s). The M.T.R. expresses the reduction in housing allowances as a percentage of the increase in incomes.

Thus M.T.R. = $\frac{\Delta A}{\Delta Y} \times 100$

Calculations using this formula are shown in Table 6.8 (Appendix). The contrast between the Danish and the British and Dutch Systems, revealed in Figure 6.2 is significant. The progressive nature of the 'taxation' in Denmark contrasts with the regressive nature in the other two countries where there are lower 'tax-rates' at higher than at lower income levels.

Figure 6.2 indicates that the answer to the question posed above is clearly 'no'. Furthermore, many of the recipients of housing allowances are not in a situation where they are faced with the question 'Shall I or shall I not acquire more income?' As evidence quoted previously shows, many are pensioners and many are unemployed.

Whether or not housing allowances are distributed according to need clearly depends on what definition of need is used. Governments offer no definitions but allowance systems imply that need is some function of income, housing costs, and household size. The treatment of housing costs poses major problems which could be alleviated by consistent pricing and/or systematic variations in allowances with location. Low take-up rates, and the exclusion

Figure 6.2

Marginal Tax Rates (M.T.R.) implied by housing allowance schemes at three rent levels




*Source:* Table 6.8

from schemes of owner-occupiers and those without any independent accommodation, prevent housing allowances providing some consistent measure of assistance to households. In practice a high proportion of housing allowance recipients are elderly or unemployed and this fact coupled with the Danish example shows that it is possible to structure housing allowances so that any weak disincentive effects due to the concentration of aid on lower income households are likely to be insignificant.

## 6.5 Housing allowances and the supply of accommodation

Within a market framework, one would expect the effect of housing allowances on the quantity of housing services consumed to depend on:-

(a) the demand increasing consequences of the allowance : which will be a function of the price and income elasticities of demand for accommodation (given that housing allowances can be viewed as selective price reductions and income supplements : see section 6.7). Unfortunately there is very little direct empirical evidence of these elasticities for recipients of housing allowances. The extent of the possibility of increased housing expenditure is, however, shown in section 6.7.

(b) the elasticity of supply of accommodation. There is some limited information about improvements in housing circumstances but there appear to have been no attempts to develop and apply a methodology for specifically testing the supply response.

In this section we will thus note a number of propositions, apply

some a priori reasoning about supply, and cite that limited evidence which is available.

It has been argued that housing allowances may not lead to any improvements in the quantity or quality of accommodation consumed because rents and prices will rise and only landlords and landowners will benefit (see, for example, A. Nevitt[1] and D. Donnison[2]). This will, of course, be true only if supply is perfectly inelastic. It has also been argued that rents will rise only to the extent that the recipients of housing allowances use them to bid themselves into more preferred positions and "only the landlords of (better) accommodation in increased demand would be able to raise rents" (F. Pennance[3]). Why Pennance put "better" in brackets is not clear. It would be the landlords of accommodation in increased demand and inelastic supply that would be able to raise rents the most. There is no reason to assume that their accommodation is "better".

It has been argued that reliance on housing allowances "would be a gamble by the market" (Zeyl[4]) and without adequate competition, an abundant supply and complete mobility within the stock housing allowances will "be very costly for the community"[5] and with supply inelasticity, elements of price control and incentives to low cost building are essential.

---

(1) Nevitt, A. (1966), 'Housing, Taxation and Subsidies', London, Nelson p.154.

(2) Donnison, D. (1967), 'The Goverrment of Housing', London, Penguin, pp. 264-65.

(3) Pennance, F.G. (1969), op. cit., p.30.

(4) Zeyl, N. (1973), 'Systems of individual subsidies', in Proceedings of U.N.E.C.E. Seminar on Financing of Housing, Geneva, August, p.151.

(5) ibid.

In theory, housing allowances may lead to higher rents without any increase in quality; relieve the strain on recipients budgets without changing housing quality, or they may lead to housing improvement through landlord repairs or by giving the recipient an incentive to move. Rent controls can, of course, prevent rent inflation occurring.

In the Netherlands such rent increases have not occurred; probably because of the stabilising influence of a large percentage of units owned by non-profit organisations. Rent increases in controlled areas have been mainly to maintain or improve the return on capital rather than for housing improvements. The Dutch system is likely to lead to improvements only if recipients move to better housing and the mix of housing improvement and budget relief that results from housing allowances depends on the mobility of tenants. While there have been no longitudinal studies that have measured the effect of Dutch allowances on mobility, questionnaire evidence about the consequences of housing allowances "suggest a considerable potential for mobility among low-income residents of low rent housing"(1). Ten per cent of a sample of Dutch recipients living in 'older' housing said they would not have moved into their current accommodation if they had not been eligible for a subsidy; for recipients in 'newer' housing the proportion was 20 per cent. Answers to other questions suggested that, on average, recipients were prepared to pay DF1 0.73 more rent for every DF1 1 increase in allowance.(2)

A high proportion of the recipients of the West German Wohngeld

---

(1) Wiewel, W. (1979), op.cit., p.8

(2) ibid.

are in newer (higher quality) accommodation as can be seen from Table 6.4. This is partly a function of the rent gap: newer dwellings have higher rents. There is, however, evidence which suggests that the payment of housing allowances has been associated with improved standards of accommodation in West Germany. Between 1974 and 1977 the rents of the recipients of Wohngeld rose by an average of 15 per cent. The 'Wohngeld and Mietenbereicht' report (1977) argues that since living areas showed scarely any increase on average and rents per square metre for a "constant level of equipment" rose at a considerably lower rate "this increase in rents clearly reveals the greatly improved level of equipment of the flats occupied by the recipients of accommodation allowances .....particularly in the case of one person households"(1).

Table 6.4: Age of dwellings occupied by recipients of Wohngeld (1976)

| | Percentage of recipients living in dwellings in given age category. | Percentage of dwellings in given age category occupied by recipients of Wohngeld. |
|---|---|---|
| Built before 1948 | 26.5 | 7.0 |
| 1948-65 | 40.7 | 10.8 |
| 1966-77 | 18.8 | 16.4 |
| 1972-74 | 10.6 | 13.3 |
| 1975-76 | 3.4 | |
| | 100.0 | |

Source: Wohngeld and Mietenbereicht (1977); part translation British Library RTS 12382 A

(1) Bundesministerium fur Raumordnung, Bauwesen und Stadtebau (1977) op.cit., British Library Translation RTS 12382 A, pp.16-17

Other West German sources, however, suggest that the incidence of the housing allowance is largely shifted to housing owners and the subsidy "contributes indirectly if at all to the demand for new housing"(1). It can be argued that housing allowances will have more influence on supply:-

(a) the higher the mobility of tenants, implying faster forward shifts in demand;

(b) the higher the average vacancy rate in the stock in the short run, and the higher the elasticity of supply in the long run, implying reductions in transfers to housing owners;

(c) the more differentiated the quality structure of newly constructed housing, especially in the lower quality brackets implying a higher elasticity of supply in these quality brackets;

(d) the more efficient the administration of the housing allowance scheme, including its adjustment to changing income and rent levels.

In the West German context, Pfieffer and Stahl conclude that there is insufficient tenant mobility, elasticity of supply and efficiency in administration for the housing allowance scheme to have important supply-increasing consequences(2).

In the Netherlands, Denmark, and West Germany some economists who consider the housing problem mainly in terms of a requirement for increased supply are opposed to a large scale use of housing

---

(1) Pfeiffer, U. and Stahl, K. (1975), 'Housing Finance Policies in Germany'. Paper supplied in translation by West German Federal Ministry for Regional Planning, Building and Urban Development.

(2) ibid.

allowances. R.M. de Haan, for example, has argued that Dutch housing allowances cannot deal with those factors which restrict the supply of housing such as the provision of finance, and object subsidies are necessary to increase the profitability of building.(1) A Danish economist, J. Sondergaard, has argued that moves towards subject subsidies have gone too far and he stresses the ability of object subsidies to give a better control over the supply of accommodation and argues for a "re-allocation of subsidies from consumer aid to investment aid".(2) He identifies a problem of balance between expenditure and output of housing and notes the potential of building subsidies to influence the relationship between new building and modernisation and maintenance of existing buildings. In West Germany it has been argued that the housing problem is mainly one of low income minorities living in low quality accommodation in large cities. Improvement and rebuilding in city centres is necessary. Housing allowances may have distributional advantages but they will not help solve these 'production' problems.(3)

Conflicting propositions about the consequences of housing allowances: (to what extent will there be higher prices or more supply?) arise out of conflicting assumptions about the price elasticity of supply of accommodation, but the very concept of price elasticity is of varying significance from country to country. Much of the rented stock in western Europe is in the non-profit or public sector. Supply here is not necessarily a function of market demand and price signals. The market paradigm is, in this context,

---

(1) de Haan, R.M. quoted in Priemus, H. (1977), op. cit.

(2) Sondergaard, J. (1978), op. cit.

(3) Pfeiffer, U. (1976), op.cit.

more relevant to West Germany than Britain: 47 per cent of recipients of housing allowances were in the non-profit sector in West Germany (1976) whereas in England and Wales 83 per cent (1979) were in the public sector.

Many of the objections to housing allowances arise from alternative perceptions of housing problems. Proponents of allowances consider housing problems mainly in terms of income levels and income and rent distributions rather than in terms of supply. Housing allowances clearly cannot solve problems on the supply side caused, for example, by financial or institutional restrictions. Some of the more naive advocates of housing allowances have argued that supply problems have been solved since crude housing shortages ceased to exist. Those policy instruments that are used to tackle supply problems will, as the next section will show, influence both the role that subject subsidies are to perform and the level at which they are to be paid.

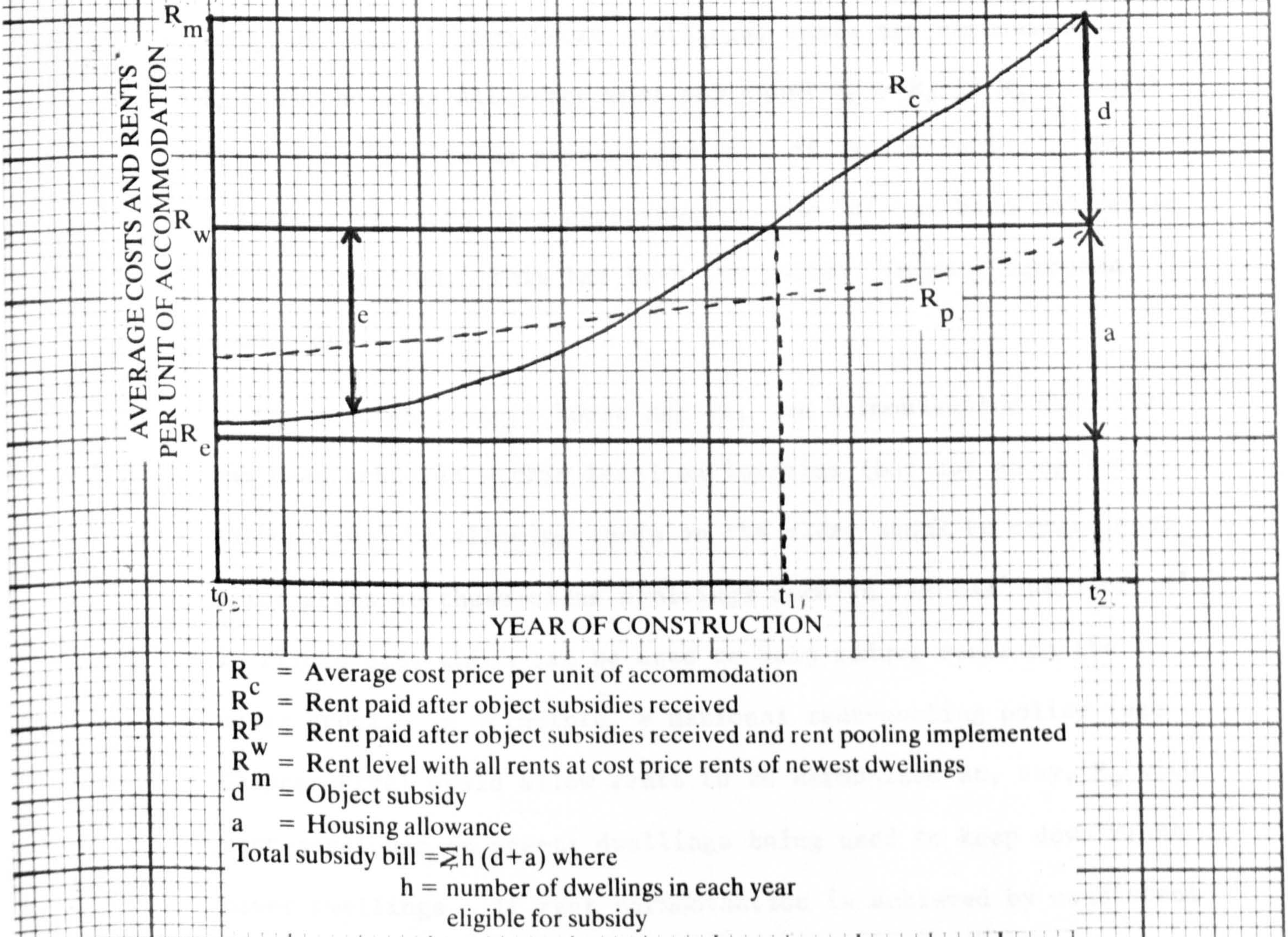
## 6.6 Housing allowances and the pricing of housing services

Many of the occupants of newer rented dwellings, especially in the non-profit and public sectors, are in receipt of housing allowances. In many European countries this is partly a function of the 'rent-gap'. Rent-harmonisation would involve large increases in the rents of older dwellings and an increase in housing allowance payments would follow. There is therefore a conflict between rent harmonisation and a low level of subsidy. An increase in object subsidies to the newer stock would reduce the need for housing allowances and allow rent harmonisation to be approached at a lower average rent level.

Figure 6.3 shows the general problem using a series of hypothetical relationships. $R_c$ shows the cost price rent of dwellings increasing as the age of dwellings decreases. (See Chapter Five). If a government wishes rents to be harmonised at $R_e$, this being deemed to be the 'equitable payment per unit of accommodation', $R_c - R_e$ must be paid as a subsidy. If object subsidies are paid these are typically largest for the newer stock. These might reduce asking rents to $R_p$. $R_p - R_e$ could then be paid to households as part of a housing allowance. The government would be using housing allowances (as well as object subsidies) to achieve that aspect of equity defined in section 2.3(v) as "an equitable relationship between the payments for different units of accommodation".

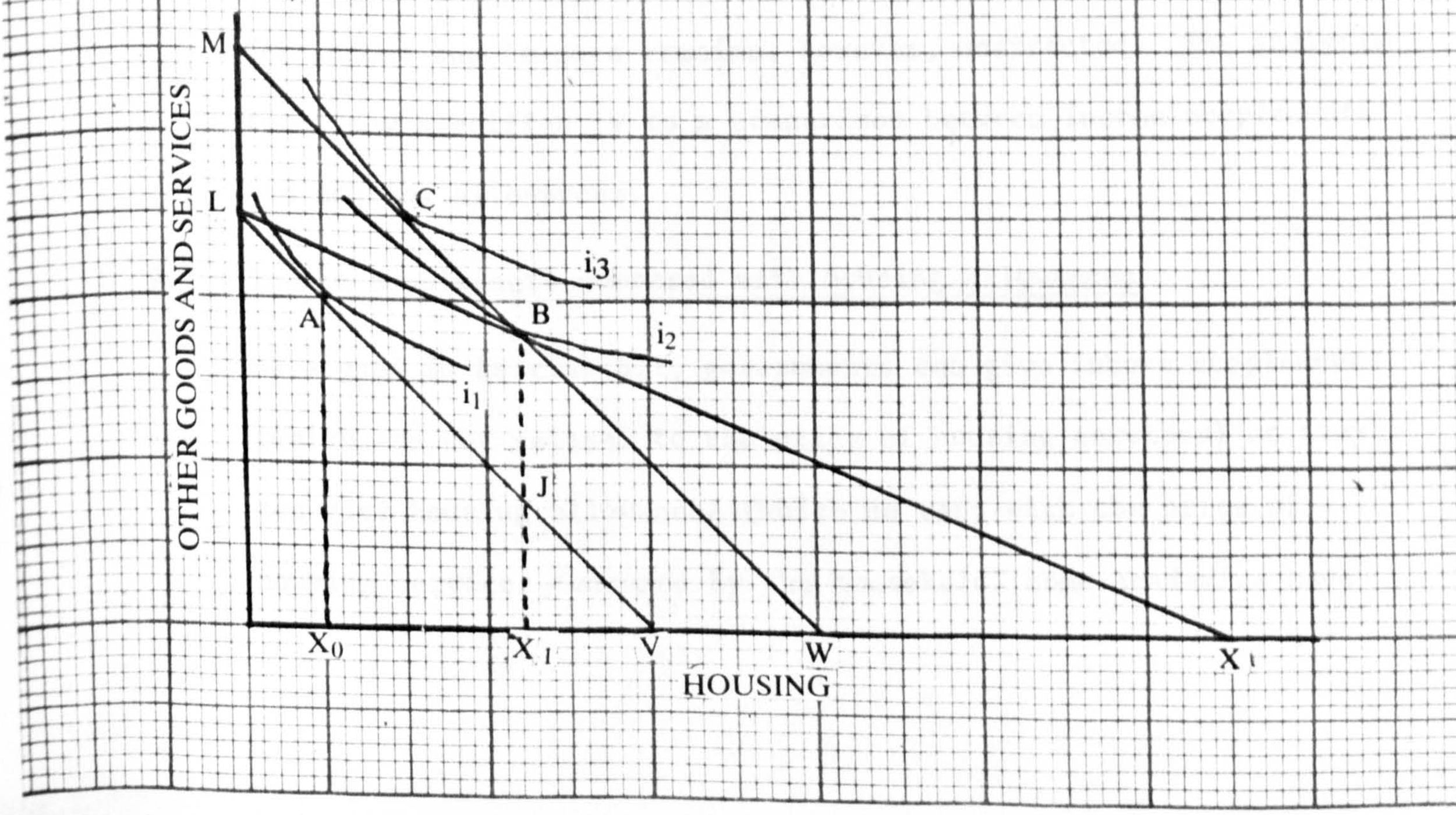
If the government pursues a rent harmonisation objective, the level of rent around which harmonisation is sought and the method of achieving this harmonisation are crucial in determining the level of housing allowance required. An increase in object subsidies would reduce the level of $R_p$ and could be used to 'flatten' $R_p$. At the extreme, object subsidies could totally bridge the gap between $R_c$ and $R_e$ and asking rents would be harmonised at $R_e$. Housing allowances would not be needed as an instrument to achieve equitable payments for different units of accommodation, although, they could still be used to pursue the objective of an "equitable relationship between the proportions of income spent on housing by different households" (See section 2.3(c)). This effectively would allow some tenants to contribute less than $R_e$ from their household budgets. If object subsidies are reduced and cost price rents are charged housing allowances might have a rent harmonisation

Figure 6.3 Object subsidies, housing allowances and the age structure of the housing stock




$R_c$ = Average cost price per unit of accommodation
$R^c$ = Rent paid after object subsidies received
$R^p$ = Rent paid after object subsidies received and rent pooling implemented
$R^w_m$ = Rent level with all rents at cost price rents of newest dwellings
$d^m$ = Object subsidy
a = Housing allowance
Total subsidy bill = $\sum h\,(d+a)$ where
h = number of dwellings in each year eligible for subsidy

Figure 6.4 The Welfare Effects of Price and Income Changes



element equal to $R_c - R_e$. If object subsidies are abandoned and market rents are charged which are similar to the cost price rents of recently completed dwellings, rents are harmonised at $R_m$. The housing allowance must now equal $R_m - R_e$ if $R_e$ is still the target "equitable payment per unit of accommodation". In practice, as rents have approached $R_m$ and 'd' has been reduced so 'a' has expanded. This has been the pattern in many European countries.

In the British council house sector, the harmonisation objective has been achieved within local authorities (but not among local authorities) by allowing rents on the older stock to exceed cost price rents so these older dwellings receive 'excess' payments ('e' in Figure 6.3) which can be used to help reduce rents on the newer stock. In principle, a national rent-pooling policy (see Chapter Five) would allow rents to be harmonised at, say, $R_w$ with rent-surpluses on pre-$t_1$ dwellings being used to keep down rents on newer dwellings. If rent harmonisation is achieved by consistent pricing policies and/or object subsidies the case for subject subsidies which vary with rents is substantially reduced. The case for income supplements remains, however, unaffected. The analysis turns now specifically to a comparison between income supplements and housing allowances.

## 6.7 Income supplements compared with housing allowances

As argued in Section 6.1, governments can give income supplements (which are not related to the price of housing services) or they can give housing allowances (which do vary with the price of housing services consumed by the household) some academics have

claimed that housing allowances are price reductions and as such are inferior in welfare terms to income supplements which give consumers more choice and, for a given Exchequer cost, allow consumers to reach higher levels of utility than are possible with housing allowances. (see, for example, Richardson[1] and Stafford[2]).

Using the conventional welfare tools of indifference curves and budget lines the proposition is sometimes supported with a diagram similar to Figure 6.4. The consumer can move from A to B with a reduction in the price of housing services which shifts the budget line from LV to LX. With an income supplement designed to cost the Exchequer BJ the consumer can move from A to C, since the budget line moves to MW. C of course is on a higher indifference curve to B.

The value of this sort of welfare analysis as a guide to the choice of policy instruments must be judged in the light of a number of limitations to the argument which are exposed by analysis of the allowance systems in the different countries. The limitations are:-

(i) Housing allowances are not necessarily intended to move consumers onto higher indifference curves. They aim, inter alia, to increase housing consumption. If the aim is to induce a shift in Figure 6.4 from $X_0$ to $X_1$, it is clear that the price reduction achieves this while the income supplement does not.

---

(1) Richardson, H.W. (1978), 'Regional and Urban Economics', London, Penguin, pp. 352-355.

(2) Stafford, D.C. (1978), 'The Economics of Housing Policy', London, Croom Helm, pp.68-69.

(ii) The welfare analysis is set in a partial equilibrium framework. In particular, it assumes that after an income supplement is paid the relative prices of housing and non-housing remain unaltered. Budget line and indifference curve analysis shows preferred positions. The final combination of housing and non-housing consumption consequent upon any price or income change is partly dependent on supply side adjustments. Supply inelasticity will limit the ability of consumers to obtain additional units of housing as demand increases after housing allowances or income subsidies are received. If increased incomes result in more, housing demand and the price of housing services increases relative to all other prices, a simple shift of the budget line will not accurately reflect the final outcome of an increase in income. Some change in the slope will be apparent. Economic welfare is dependent on satisfactions obtained from consuming bundles of goods. The final consumption bundle depends on a series of demand and supply adjustments. Without explicitly allowing for these adjustments one cannot make a judgement as to the relative merits of price reductions or income subsidies.

(iii) The welfare analysis assumes that there are no restrictions on the supply of accommodation and households can make a free choice about how much housing they consume. Some households will be better able to bid themselves into situations of greater utility and/or greater housing consumption than others. Any sort of discrimination or entry conditions set

by public or private sector landlords work against the reality of this assumption.

(iv) Although the diagram relates to an individual household the analysis is sometimes used in an attempt to support the general proposition that current housing payments are not relevant in assessing how much assistance to give any household. Implicitly this assumes that equal increases in income give equal increases in utility for any household at a given income level, and income supplements therefore satisfy the conditions for horizontal equity. This will only be the case if the relative prices of housing and non-housing are the same before subsidy for all households who are to receive assistance. In practice this will not be the case and the slope of the initial budget line will vary from household to household because housing services are available at different prices to different households. Previous evidence has shown how rents vary, for example, with the age of properties and location. If housing services are not priced on a consistent basis, income supplements of equivalent size have different consequences both for utility and housing consumption for households with equivalent incomes who face differing prices per unit of housing.

(v) The application to housing allowances of the welfare analysis associated with Figure 6.4 assumes that housing allowances are price reductions and not income supplements. Both in principle and in practice housing allowances are strictly

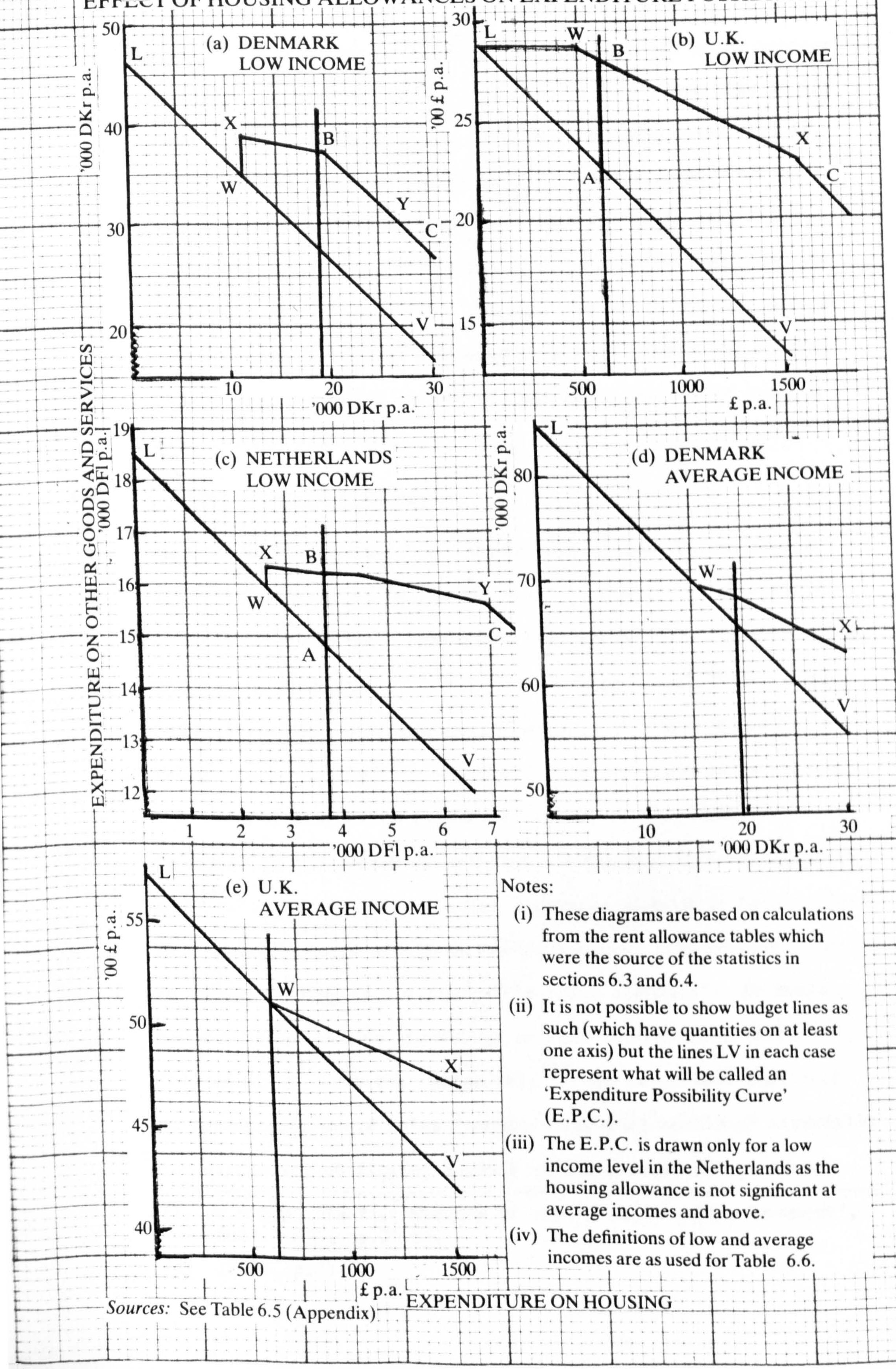
neither. They can be seen as conditional income supplements or conditional price reductions or a combination of price reduction and income supplement.

Some housing allowance schemes are closer to being simple income supplements than others. The less the price paid for housing services is a factor influencing the amount paid the more is any scheme like a simple income supplement. Danish housing allowances are, for example, more like income supplements than are British housing allowances. The difference between the systems in the United Kingdom, the Netherlands, and Denmark are shown in Figure 6.5.

The effect of a housing allowance is to shift the Expenditure Possibility Curve (E.P.C.) to LWX or LWXY. A vertical line on each diagram gives an approximate indication of the average rent level. The vertical distance between LV and LWX(Y) shows, for any given level of housing expenditure, the money value of the subsidy. If the subsidy was a simple price reduction this vertical distance would increase as housing expenditure increased. The E.P.C. would, after subsidy, pivot outwards. If the subsidy was an income supplement a parallel shift of the E.P.C. would be apparent. The contrast between Figures 6.5(a) and 6.5(e) illustrates this point. Figure 6.5(a) indicates that in Denmark at a low level of income and above average rent the housing allowance acts like an income supplement; the amount paid does not vary with rent. Figure 6.5(e) shows that in the United Kingdom at an average income level and above average rent the housing allowance acts like a price reduction.

Figure 6.5

## EFFECT OF HOUSING ALLOWANCES ON EXPENDITURE POSSIBILITIES




Notes:

(i) These diagrams are based on calculations from the rent allowance tables which were the source of the statistics in sections 6.3 and 6.4.

(ii) It is not possible to show budget lines as such (which have quantities on at least one axis) but the lines LV in each case represent what will be called an 'Expenditure Possibility Curve' (E.P.C.).

(iii) The E.P.C. is drawn only for a low income level in the Netherlands as the housing allowance is not significant at average incomes and above.

(iv) The definitions of low and average incomes are as used for Table 6.6.

*Sources:* See Table 6.5 (Appendix)

Housing allowances increase household resources and allow greater expenditure on housing or non-housing. In this sense they do not restrict choice. Although the receipt of housing allowances is tied to housing (in that the amount obtained is related to the price of housing services consumed) the spending is not. There are, as has been shown, good reasons for tying the qualification for benefit to housing costs. Housing allowances schemes acknowledge the significance of variations in both incomes and housing costs as factors affecting the ability of households to improve their housing conditions.

## 6.8 A universal housing allowance

The British 'Green Paper' on housing policy (Housing Policy: A Consultative Document Cmnd 6851, 1977)[1] considered the possibility of introducing a 'universal housing allowance'. This would involve the abolition of 'general assistance' which "meets some parts of housing costs without regard to individual household's ability to pay". Some proponents of a universal housing allowance view it as a measure to replace *all* other housing subsidies. It is argued in the 'Green Paper' that a universal housing allowance might take the form of a regular flat-rate payment to householders that would be large enough to enable the most hard-pressed families to afford housing of "a reasonable basic standard". It would however be subject to income tax so that a proportion would be "clawed back" from the better off.[2] It is claimed that such an arrangement would raise "serious practical problems" especially the difficulty of finding a level of assistance that would be

---

(1) H.M.S.O. (1977), 'Housing Policy: A Consultative Document', Cmnd. 6851, pp.33-35.

(2) ibid., p.33.

adequate for others with lower costs".(1) It was also noted that there would be a large increase in the flow of payments to and from the Exchequer and it was claimed that "clawback through the tax system would not secure full repayment from those who did not need assistance".(2)

The need for tax clawback is only necessary if the payment is not means tested. The arguments against means tested benefits include administration difficulties, dislike of such systems by households and low take-up rates. A universal housing allowance would avoid these problems. It might be better to make means tests less abhorent and educate households against the idea that they are receiving a poverty handout. All the housing allowance schemes discussed in this chapter are means tested. Means testing allows housing costs to be considered. The arguments for varying payments with housing costs have been detailed in previous sections: this variation can produce some measure of equity between those facing different housing costs and it can help to ensure that the poor do not face a big disincentive to move in the form of higher housing costs. All the schemes considered in this chapter involve a variation of the allowance with housing costs over at least certain ranges of costs. If clawback through the tax system was to be related to costs as well as incomes the mechanism might be very complex and costly. These problems would have to be weighed carefully against the disadvantages of means testing at the payment stage.

Proponents of a universal housing allowance are expecting much from a single method of subsidy. A universal housing allowance as

---

(1) ibid.
(2) ibid.

depicted in the 'Green Paper' model does not exist in any of the countries investigated. The architects of each of the schemes considered in this chapter have considered an income *and* a rent relationship essential. Despite the moves towards housing allowances in many European countries substantial object subsidies to aid the supply of housing remain. Proponents of a universal housing allowance assume that there is only a demand problem related to the distribution of income. As shown in Chapter Three, the factors preventing the achievement of housing policy objectives include important supply-side considerations. If all supply-side problems had been removed and supply was more elastic there would be a better case for extending the use of housing allowances. If in addition there was consistent pricing, there would be a better case for a universal housing allowance.

## 6.9 Conclusions

In Chapters Three and Four a classification system for housing policy instruments was presented in association with four views of housing problems. Subject subsidies are most clearly associated with the view that low levels of income or the distribution of incomes in relation to costs is at the root of the problem. If, alternatively, too low a level of production or capital market shortages and high interest rates are deemed to be the central issue object subsidies may be used to achieve production increases or cost reductions. If an inefficient or inequitable allocation of the stock is a major issue, housing allowances may have a part in improving the relationship between some measure of housing need and the size and quality of accommodation occupied, by supplementing

the incomes of those with high 'needs' but low incomes. However, 'over consumption' of housing by high income groups with low 'needs' will not be altered unless the allowance scheme is accompanied by some sort of 'tax' on the use of accommodation by high income earners. Only in this situation is significant redistribution of the stock likely. This thinking was behind the proposal in the Netherlands in 1974 for an 'assessment levy' to be paid by tenants with high incomes but low rents. The proposal was, however, rejected by parliament and has not been revived. A similar 'sur loyer' proved politically unpopular in France in the 1960s and was abandoned. (See Chapter Five). A significant allocation problem arises out of the relationship between rents and the quality of accommodation. A satisfactory relationship between the two can be sought by means other than housing allowances. Housing allowance schemes do, however, tend to assume, implicitly, that asking rent is a suitable proxy for quality.

It has been shown that an increasing emphasis has been attached in recent years to housing allowances as a means of avoiding or correcting some of the alleged deficiencies of object subsidies. The lack of discrimination in aid to buildings is supposedly avoided by personal subsidies which give most help to those in greatest need. In practice governments have introduced or extended allowance schemes as part of a 'package' of measures designed to result in less intervention in housing markets and a reduction in subsidies to non-profit or public housing. There are some similarities between countries in the basic structure of housing allowance systems but there are important differences in the rates at which benefit is withdrawn as income rises and in the variability of the

allowance with rent levels. Some schemes are more like general income supplements than others which more directly tackle the issue of household budget relief necessary as a result of high rents.

The experience in the different countries provides a body of evidence which is relevant to the propositions detailed in section 6.2. These propositions raised questions about the relationship between housing allowances and (a) the need for household subsidies (b) the supply of accommodation and (c) an equitable distribution of housing subsidies.

It has been shown that all the housing allowance schemes examined measure need with respect to household incomes, household size and housing costs, although the relative importance of these factors varies from country to country. Where rents vary significantly with the age of properties or location allowances may not show sufficient variation to adequately help those with very high rents. Many households on the lowest incomes are ineligible for benefit because they do not have independent accommodation, have very low rents or they are owner-occupiers. Those in the greatest need may not qualify or may not claim assistance. The effective incidence of personal subsidies will be such that suppliers receive some benefits.

There is some evidence to suggest that housing allowances can lead to an improvement in the quality of accommodation occupied (Netherlands and West Germany ; see section 6,5) but it is likely that supply inelasticities severely limit the ability of housing allowances to induce major increases in supply, especially in the

short run. Much of the rented sector in all the countries studied is, furthermore, in the non-profit or public sector where additional supply will not necessarily be a function of increased expected profits resulting from increased demand.

The distributional consequences of housing allowances and the housing allowances versus income supplements debate is crucially affected by the degree of consistency in the pricing of accommodation. A lack of consistent pricing, in all the countries studied, has been a powerful argument against income supplements. The introduction of housing allowances, alone, cannot promote an equitable distribution of housing subsidies if other subsidies and regulations which arbitrarily distort housing consumption continue. This is especially true where allowances apply only to the rented sector and income regressive subsidies to owner-occupiers are maintained. Despite the growth of housing allowance schemes only a minority of households receive allowances in any country. The remainder benefit from non-means-tested general assistance.

Housing allowances fill a gap between an 'acceptable' housing payment by the household and the cost of 'decent' accommodation. Before deciding in favour of housing allowances and determining the form the allowance is to take governments have to take a view on what is 'acceptable' and what is 'decent' and how, in the rented sector, the asking rents for decent accommodation are to be determined: market rents, cost price rents, rents according to quality points, local authority discretion or something else? If the resulting rent level is 'too low' an 'insufficient' quantity of new housing units will be provided by market forces. How in

these circumstances is the government to encourage supply? If allowances are extended to owner-occupiers, governments have to decide whether mortgage costs (as is the case in France and West Germany) or some other imputed measure is to serve as the indicator of housing costs. If the government is willing to allow market rents and prices to be the basis for consumer charges and for determining the level of output, the case for an exclusive use of housing allowances is stronger than if the government has alternative aims regarding the determination of rents, prices, and the level of output.

One cannot prove that housing allowances are better than object subsidies or inferior to general income supplements. The relative merits of policy instruments must be judged in relation to their aims and with the aid of an analysis of the factors which impede the achievement of those aims. The less housing policy is viewed as a question of production and the more a question of distributional justice the greater is the emphasis attached to housing allowances. The more distributional justice is seen simply as a distribution of income problem the greater is the emphasis on personal income supplements and the less on personal subsidies tied to housing consumption.

The structure of housing allowance schemes will vary with their aims. If housing allowances are to be a means of redistributing incomes they must be judged in relation to other redistributive mechanisms. If housing allowances are to be a means of compensating for inconsistent pricing one needs to question why inconsistent pricing exists

and what can be done about it. If there are efficient redistributive mechanisms at work and there is consistent pricing in the housing market the case for housing allowances rests only on arguments about encouraging households to consume more of a specific commodity which the state considers desirable.

## 6.10 Appendix : housing allowance statistics

The figures in the following tables have been compiled from information in the tables published in the Netherlands, Denmark, and the United Kingdom which show tenants how much they may claim. The detailed titles of each of these is given under Table 6.5. The Danish table used is for 1978. The Dutch is for July 1978 to July 1979. The United Kingdom table is for payments relevant from November 1980-81.

The allowance figures (A) shown below relate to a family of two adults (one of whom is a wage earner) and two children.

$R_1$ $R_2$ $R_3$ $R_4$ are four rent levels. $R_2$ approximates to the average rent paid; $R_1$ is approximately 75 per cent of $R_2$ ; $R_3$ is approximately 125 per cent of $R_1$ ; $R_4$ is a 'high rent' figure, which is at least 200 per cent of $R_1$ in the U.K. and the Netherlands, but only 150 per cent of $R_2$ in Denmark where it is the maximum figure in the Boligsikring table.

The income figure (Y) in brackets in Tables 6.5 and 6.7 approximates to the average income level.

Table 6.5 : Money value of housing allowances and changes in income at four rent levels : $R_1$, $R_2$, $R_3$ and $R_4$.

(Amounts per annum in national currencies)

United Kingdom (£ p.a.)

| | | | | | |
|---|---|---|---|---|---|
| Y | = 2,860 | 3,380 | 4,160 | (5,720) | 6,240 |
| A ($R_1$) | = 416 | 326 | 169 | 0 | 0 |
| A ($R_2$) | = 518.44 | 388.44 | 231 | 0 | 0 |
| A ($R_3$) | = 580.84 | 450.84 | 293.8 | 28.6 | 0 |
| A ($R_4$) | = 986,44 | 856,44 | 699,4 | 434.2 | 345.8 |

($R_1$ = 416; $R_2$ = 520; $R_3$ = 624; $R_4$ = 1300)

(continued)

Denmark (Kroner p.a.)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Y | = | 47,000 | 55,000 | 65,000 | 75,000 | (85,000) | 92,000 |
| A ($R_1$) | = | 6,120 | 4,800 | 3,120 | 1,440 | 0 | 0 |
| A ($R_2$) | = | 8,640 | 8,280 | 6,600 | 4,920 | 3,240 | 600 |
| A ($R_3$) | = | 8,640 | 8,640 | 8,640 | 8,520 | 6,360 | 840 |
| A ($R_4$) | = | 8,640 | 8,640 | 8,640 | 8,640 | 7,560 | 960 |

($R_1$ = 14,000; $R_2$ = 19,200; $R_3$ = 24,000; $R_4$ = 28,000)

Netherlands (Guilders p.a.)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Y | = | 19,000 | 21,000 | 23,000 | 26,000 | 30,000 | 34,000 | (38,000) |
| A ($R_1$) | = | 180 | 0 | 0 | 0 | 0 | 0 | 0 |
| A ($R_2$) | = | 780 | 240 | 0 | 0 | 0 | 0 | 0 |
| A ($R_3$) | | 1,620 | 1,020 | 360 | 0 | 0 | 0 | 0 |
| A ($R_4$) | = | 3,360 | 2,640 | 1,920 | 1,380 | 900 | 300 | 0 |

($R_1$ = 2,250; $R_2$ = 3,000; $R_3$ = 3,750; $R_4$ = 6,000)

A = Value of allowance at given rent level.

Source: The Netherlands: Ministerie van Volkshuisvesting en Ruimelijke Ordening (1978), 'Individuele huursubsidies, mei 1978.

Denmark: Boligselskabernes Lansforening (1978) 'Boligsikring 1978'.

United Kingdom: Department of the Environment (1980) 'There's money off rent : Rent Rebates and Allowances'.

Table 6.6 : Rent quota before and after subsidy, at three income levels : $Y_a$, $Y_b$ and $Y_c$.

R = asking rent per annum, $R_p$ = rent paid per annum (each in national currencies).

RQBS = Rent quota before subsidy (% of income devoted to rent before subsidy).

RQAS = Rent quota after subsidy (% of income devoted to rent after subsidy).

$Y_b$ = approximates to average income.

$Y_c$ = 1.1 $Y_b$

$Y_a$ = 0.6 $Y_b$ approximately ('Low' income figure)

Bracketed figures approximate to average rent paid.

United Kingdom.....

Table 6.6 (continued)

United Kingdom

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| $Y_a$ = £3,380 p.a. | | | | | | | | |
| R = | 260 | 415 | 468 | (520) | 624 | 780 | 1,040 | 1,300 |
| $R_p$ = | 27.56 | 89.86 | 110.76 | 131.56 | 173.16 | 235.56 | 339.56 | 443.56 |
| RQBS = | 7.7 | 12.3 | 15.8 | 15.4 | 18.5 | 23.0 | 30.8 | 38.5 |
| RQAS = | 0.8 | 2.7 | 3.3 | 3.9 | 5.1 | 6.7 | 10 | 13.1 |
| $Y_b$ = £5,720 p.a. | | | | | | | | |
| R = | 260 | 415 | 468 | (520) | 624 | 780 | 1,040 | 1,300 |
| $R_p$ = | 260 | 415 | 468 | 520 | 595.4 | 657.8 | 761.8 | 865.8 |
| RQBS = | 4.3 | 7.7 | 8.2 | 9.1 | 10.9 | 13.6 | 18.2 | 22.7 |
| RQAS = | 4.5 | 7.7 | 8.2 | 9.1 | 10.4 | 11.5 | 13.3 | 15.1 |
| $Y_c$ = £6,240 p.a. | | | | | | | | |
| R = | 260 | 415 | 468 | (520) | 624 | 780 | 1,040 | 1,300 |
| $R_p$ = | 260 | 415 | 468 | 520 | 624 | 746.2 | 850.2 | 954.2 |
| RQBS = | 4.2 | 6.7 | 7.5 | 8.3 | 10 | 12.5 | 16.7 | 20,8 |
| RQAS = | 4.2 | 6.7 | 7.5 | 8.3 | 10 | 12 | 13.6 | 15.3 |

Denmark

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| $Y_a$ = 50,000 Kroner p.a. | | | | | | | | |
| R = | 12,000 | 14,400 | 16,800 | (19,200) | 21,600 | 24,000 | 26,400 | 28,800 |
| $R_p$ = | 8,160 | 8,760 | 9,480 | 10,560 | 12,960 | 15,390 | 17,700 | 20,160 |
| RQBS = | 24 | 28.8 | 33.6 | 38.4 | 43.2 | 48 | 53.8 | 57.6 |
| RQAS = | 16.3 | 17.5 | 19 | 22.1 | 26 | 30.7 | 35.5 | 40.3 |
| $Y_b$ = 85,000 Kroner p.a. | | | | | | | | |
| R = | 12,000 | 14,400 | 16,800 | (19,200) | 21,600 | 24,000 | 26,400 | 28,000 |
| $R_p$ = | 12,000 | 14,400 | 15,240 | 15,960 | 16,560 | 17,640 | 19,440 | 21,240 |
| RQBS = | 14.1 | 16.9 | 19.7 | 22.6 | 25.4 | 28.2 | 31 | 33.9 |
| RQAS = | 14.1 | 16.9 | 17.9 | 18.8 | 19.5 | 20.7 | 22.9 | 25 |

Denmark continued....

Table 6.6.(continued)

Denmark (continued)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| $Y_c$ = | 92,000 Kroner p.a. | | | | | | | |
| R = | 12,000 | 14,000 | 16,800 | (19,200) | 21,600 | 24,000 | 26,400 | 28,000 |
| $R_p$ = | 12,000 | 14,000 | 16,800 | 18,600 | 20,880 | 23,160 | 25,560 | 27,840 |
| RQBS = | 13 | 15.6 | 18.3 | 20.9 | 23.5 | 26.1 | 28.7 | 31.3 |
| RQAS = | 13 | 15.6 | 18.3 | 20.2 | 22.7 | 25.2 | 27.8 | 30.2 |

Netherlands

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| $Y_a$ = | 22,750 (Guilder p.a.) | | | | | | | |
| R = | (3,000) | 3,395 | 3,795 | 4,195 | 4,605 | 5,065 | 5,530 | 5,990 | 6,450 |
| $R_p$ = | 3,000 | 3,275 | 3,375 | 3,475 | 3,585 | 3,745 | 3,910 | 4,070 | 4,230 |
| RQBS = | 13.1 | 14.9 | 16.7 | 18.4 | 20.2 | 22.3 | 24.3 | 26.3 | 28.3 |
| RQAS = | 13.1 | 14.4 | 14.8 | 15.3 | 15.7 | 16.5 | 17.2 | 17.9 | 18.6 |

| | | | |
|---|---|---|---|
| $Y_b$ = | 38,000 (Guilder p.a.) | | |
| R = | 3,395 | 6,450 | 6,680 |
| $R_p$ = | 3,395 | 645 | 6,500 |
| RQBS = | 8.9 | 17 | 17.6 |
| RQAS = | 8.9 | 17 | 17.1 |

At income level $Y_c$ no subsidies are paid in the Netherlands.

---

Table 6.7 : Housing allowances as a percentage of the rent

United Kingdom

| | | | | | | |
|---|---|---|---|---|---|---|
| Y = | 2,860 | 3,380 | 4,160 | 4,940 | (5,720) | 6,240 |
| $A(R_1)$ = | 100 | 78.4 | 40.6 | 8.7 | 0 | 0 |
| $A(R_2)$ = | 99.7 | 74.7 | 44.5 | 18.8 | 0 | 0 |
| $A(R_3)$ = | 92.9 | 72.1 | 47.0 | 25.8 | 4.5 | 0 |
| $A(R_4)$ = | 75.9 | 65.9 | 53.8 | 43.6 | 33.4 | 26.6 |

Denmark

| | | | | | | |
|---|---|---|---|---|---|---|
| Y = | 47,000 | 55,000 | 65,000 | 75,000 | (85,000) | 92,000 |
| $A(R_1)$ = | 42.5 | 33.3 | 21.7 | 10 | 0 | 0 |
| $A(R_2)$ = | 45 | 43.1 | 34.4 | 25.6 | 16.9 | 3.1 |
| A(R3) = | 36 | 30 | 30 | 30 | 26.1 | 3.3 |
| $A(R_4)$ = | 30 | 30 | 30 | 30 | 26.1 | 3.3 |

Netherlands.

Table 6.7 (continued)

Netherlands

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Y = | 19,000 | 21,000 | 23,000 | 26,000 | 30,000 | 34,000 | (38,000) |
| $A(R_1)$ = | 8 | 0 | 0 | 0 | 0 | 0 | 0 |
| $A(R_2)$ = | 26 | 8 | 0 | 0 | 0 | 0 | 0 |
| $A(R_3)$ = | 43.2 | 27.2 | 9.6 | 0 | 0 | 0 | 0 |
| $A(R_4)$ = | 56 | 44 | 32 | 23 | 15 | 5 | 0 |

A = Allowance as a percentage of the rent at given rent and income levels.

---

Table 6.8 : Marginal rates of 'tax' implied by housing allowances

This table seeks to answer the questions 'At a given rent level, for an increase in income how much allowance is forfeited?' and 'What is this as a percentage of the change in income?'

$$\text{Marginal tax rate (M.T.R.)} = \frac{\Delta A}{\Delta Y} \%$$

where $\Delta A$ = change in value of allowance associated with
$\Delta Y$ = given change in income.

United Kingdom (Incomes and rents in £ per week)

$R_3$=£12 p.w.

| | | | | | | |
|---|---|---|---|---|---|---|
| Y = | 55 | 65 | 80 | 95 | 110 | 120 |
| $\Delta Y$ = | +10 | 15 | 15 | 15 | 10 | |
| $\Delta A$ = | -2.5 | -3.02 | -2.55 | -2.55 | -0.55 | |
| $\frac{\Delta Y}{\Delta A}$% = | 25 | 20.1 | 17 | 17 | 5.5 | |

$R_2$=£10 p.w.

| | | | | | | |
|---|---|---|---|---|---|---|
| Y = | 55 | 65 | 80 | 95 | 110 | 120 |
| $\Delta Y$ = | +10 | 15 | 15 | 15 | 10 | |
| $\Delta A$ = | -2.5 | -3.02 | -2.55 | -1.9 | 0 | |
| $\frac{\Delta A}{\Delta Y}$ % = | 25 | 20.1 | 17 | 12.7 | 0 | |

United Kingdom .....

Table 6.8 (continued)

United Kingdom (continued)

$R_1$ = £8 p.w.

| Y = | 55 | 65 | 80 | 95 | 110 | 120 |
|---|---|---|---|---|---|---|
| ΔY | | +10 | 15 | 15 | 15 | 10 |
| ΔA | | -1.73 | -3.02 | -2.55 | -0.7 | 0 |
| $\frac{\Delta A}{\Delta Y}$% = | | 17.3 | 20.1 | 17 | 4.6 | 0 |

Denmark (Incomes and rents in Kroner per annum)

$R_3$ = 24,000 (Kroner p.a.)

| Y = | 47,000 | 55,000 | 65,000 | 75,000 | 85,000 | 92,000 |
|---|---|---|---|---|---|---|
| ΔY = | | +8,000 | 10,000 | 10,000 | 10,000 | 7,000 |
| ΔA = | | - 0 | 0 | -120 | -2,160 | -5,520 |
| $\frac{\Delta A}{\Delta Y}$% = | | 0 | 0 | 1.2 | 21.6 | 78.8 |

$R_2$ = 19,200 (Kroner p.a.)

| Y = | 47,000 | 55,000 | 65,000 | 75,000 | 85,000 | 92,000 |
|---|---|---|---|---|---|---|
| ΔY = | | +8,000 | 10,000 | 10,000 | 10,000 | 7,000 |
| ΔA = | | - 360 | -1,680 | -1,680 | -1,680 | -2,640 |
| $\frac{\Delta A}{\Delta Y}$% = | | 4.6 | 16.8 | 16.8 | 16.8 | 37.7 |

$R_1$ = 14,000 (Kroner p.a.)

| Y = | 47,000 | 55,000 | 65,000 | 75-000 | 85,000 | 92,000 |
|---|---|---|---|---|---|---|
| ΔY = | | +8,000 | 10,000 | 10,000 | 10,000 | 7,000 |
| ΔA = | | -1,320 | -1,680 | -1,680 | -1,440 | 0 |
| $\frac{\Delta A}{\Delta Y}$% = | | 16.6 | 16.8 | 16.8 | 14.4 | 0 |

Netherlands.....

Table 6.8 (Continued)

Netherlands (Incomes and rents in Guilders p.a.)

$R_3$= 3,750 (Guilder p.a.)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Y = | 19,000 | 21,000 | 23,000 | 26,000 | 30,000 | 34,000 | 38,000 |
| ΔY = | | +2,000 | 2,000 | 3,000 | 4,000 | 4,000 | 4,000 |
| ΔA = | | - 660 | -600 | -360 | 0 | 0 | 0 |
| $\frac{\Delta A}{\Delta Y}$% = | | 33 | 30 | 12 | 0 | 0 | 0 |

$R_2$= 3,000 (Guilder p.a.)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Y = | 19,000 | 21,000 | 23,000 | 26,000 | 30,000 | 34,000 | 38,000 |
| ΔY = | | +2,000 | 2,000 | 3,000 | 4,000 | 4,000 | 4,000 |
| ΔA = | | - 540 | -360 | 0 | 0 | 0 | 0 |
| $\frac{\Delta A}{\Delta Y}$% = | | 27 | 18 | 0 | 0 | 0 | 0 |

$R_1$= 2,250. (Guilder p.a.)

| | | |
|---|---|---|
| Y = | 19,000 | 21,000 |
| ΔY = | | +2,000 |
| ΔA | | - 180 |
| $\frac{\Delta A}{\Delta Y}$% | | 9 |

# CHAPTER SEVEN

# OWNER-OCCUPATION

Contents


| | | Page |
|---|---|---|
| 7.1 | Introduction | 330 |
| 7.2 | The expansion of the owner-occupied sector | 333 |
| 7.3 | Incomes per head | 335 |
| 7.4 | Relative price levels | 339 |
| 7.5 | The cost and availability of credit | 349 |
| 7.6 | The supply of dwellings for owner-occupation | 357 |
| 7.7 | Subsidies to owner-occupiers | 367 |
| 7.8 | An econometric analysis of the factors influencing the rate of growth of owner-occupation | 374 |
| 7.9 | Conclusions | 405 |
| 7.10 | Statistical appendix | 409 |


List of Tables


| | | |
|---|---|---|
| Table 7.1 | Expansion of owner-occupation 1955-1977 | 335 |
| Table 7.2 | Owner-occupation and G.D.P. per head, rank orders 1976 | 338 |
| Table 7.3 | Rank orders for expansion of owner-occupation (1955-1977) and G.D.P. per head (1956-1976) | 339 |
| Table 7.4 | Expansion of owner-occupation and 'house Prices divided by building costs' and 'house prices divided by rents' 1965-1975. Rank orders | 342 |
| Table 7.5 | Expansion of owner-occupation and house prices divided by share prices 1965-1975. Rank orders | 347 |
| Table 7.6 | Sources of house purchase finance: West Germany, 1977 | 352 |

List of Tables (continued) Page


| | | |
|---|---|---|
| Table 7.7 | Observations for the dependent and independent variables | 377 |
| Table 7.8 | Single Equation Model : Regression Results OLS | 382 |
| Table 7.9 | Simultaneous Equation Model : Regression Results 2SLS | 391 |
| Table 7.10 | Explanatory variables : Sign and Value of Coefficients : Summary Table | 396 |
| Table 7.11 | Household income and owner-occupation: West Germany, 1972 | 409 |
| Table 7.12 | Household income and owner-occupation; Denmark, 1975 | 409 |
| Table 7.13 | Household income and tenure: Netherlands, 1975 | 409 |
| Table 7.14 | Household income and tenure: Ireland, 1973 | 410 |
| Table 7.15 | Household income and tenure: England and Wales, 1975 | 410 |
| Table 7.16 | Mean and median income by tenure: England and Wales, 1975 | 411 |
| Table 7.17 | House Prices compared with building costs and rents | 411 |
| Table 7.18 | House prices compared with share prices and retail prices | 412 |
| Table 7.19 | House prices compared with share prices, U.K. Netherlands, Denmark | 413 |
| Table 7.20 | Changing Ingredients of Wealth, U.K. | 414 |
| Table 7.21 | Construction for owner-occupation | 414 |
| Table 7.22 | Housing finance and new housing. | 416 |

List of Figures


| | | Page |
|---|---|---|
| Figure 7.1 | Percentage levels of owner-occupation | 334 |
| Figure 7.2 | Gross Domestic Product per Head in European Currency Units | 337 |
| Figure 7.3 | House prices 1967-77 (1965=100) | 341 |
| Figure 7.4 | Expected signs of coefficients in simultaneous equations : Summary | 393 |

## 7.1 Introduction

Chapter Two showed that the promotion of owner-occupation is an important aim of housing policy in each of the countries under consideration. The relatively low levels of owner-occupation in West Germany and the Netherlands have been significant policy issues in these countries in recent years and politicans have been anxious to find ways of increasing the incidence of home ownership to levels nearer those found in other European countries. All post-war British governments have pledged themselves to increase owner-occupation. This chapter will compare the levels of owner-occupation and examine the various methods by which governments have attempted to increase home ownership. The analysis presented here will hopefully help to answer the following questions:

(a) Why do owner-occupation rates differ between countries?

(b) What factors influence the rate of growth of owner-occupation?

(c) How can governments influence the level and rate of growth of owner-occupation?

This will thus amount to a general analysis of the role of different policy instruments in achieving the aim of a higher level of home ownership. Whether or not owner-occupation is a desirable end in itself is not a concern of this chapter but it should be noted that the pursuit of this objective may create difficulties in the achievement of some of the other objectives discussed in Chapter One. Policies to promote owner-occupation may conflict with those designed to increase housing output and keep down housing costs especially when the emphasis is put on increasing the *demand* for home ownership, as we shall note later

in this chapter.

There follows, below, an examination of the relationships between owner-occupation and (i) the growth of income (ii) the relative prices of owner-occupied and rented dwellings (iii) the cost and availability of credit (iv) the supply of dwellings and (v) the provision of grants and tax reliefs.

A distinction is made in this chapter between the 'expansion of owner-occupation' (E) and the 'growth rate of owner-occupation' (g). The expansion is measured simply by expressing the difference between the owner-occupation rate (the percentage of the housing stock in owner-occupied use) in an end period year ($t_n$) and a base year ($t_o$) as a percentage of the base year level. Thus:

$$E = \left( \frac{Q_{tn} - Q_{to}}{Q_{to}} \cdot 100 \right) \%$$

where $Q_{to}$ = % of housing stock in owner-occupied use in year $t_o$

and $Q_{tn}$ = % of housing stock in owner-occupied use in year $t_n$.

The growth rate is the compound average annual rate of growth of owner-occupied properties as a proportion of the total housing stock; that is, it is the factor which applied to $Q_{to}$ will, over the period $t_o$ to $t_n$ bring the level to $Q_{tn}$. Thus,

$$Q_{tn} = Q_{to} (1 + g)^n$$

where $n$ = number of years.

$$\therefore \quad g = \left( \sqrt[n]{\frac{Q_{to}}{Q_{tn}}} \right) - 1.$$

In sections 7.2 to 7.5 there is a discussion of the expansion of owner-occupation. In sections 7.3 to 7.5, incomes, the relative prices of owner-occupied and rented accommodation,and the cost and availability of credit are examined as possible factors influencing the expansion of owner-occupation and therefore as possible determinants of the expansion of demand for owner-occupied properties.

Section 7.6 considers the sources of supply viz. new building, transfers from other tenures and sales of existing owner-occupied properties. Section 7.7 summarises a number of points about the subsidisation of the owner-occupied sector in the different countries.

The analysis of sections 7.2 to 7.7 considers only one factor at a time as a potential contributor to the determination of owner-occupation levels. This allows a number of basic but important points to be made about the relationships between such factors as incomes, the cost and availability of credit and owner-occupation, and these points are made within the context of the institutional arrangements in each country. Many of the points made in these sections aid the interpretation of the more complex analysis which follows in section 7.8. The earlier sections provide descriptive material as well as postulating relationships between variables which are subjected to testing in section 7.8. The hypotheses of sections 7.3 to 7.7 are the basis of the demand and supply model which is developed and tested in the second part of section 7.8.

In section 7.8 growth rates of owner-occupation are examined using multiple regression techniques with rates of growth of incomes,

house prices, rent levels, building costs, and the cost and availability of credit used as explanatory factors. A single equation approach is used first with the application of ordinary least squares and then a simultaneous equation approach is used to examine a demand and supply model. The latter approach utilises the method of two stage least squares.

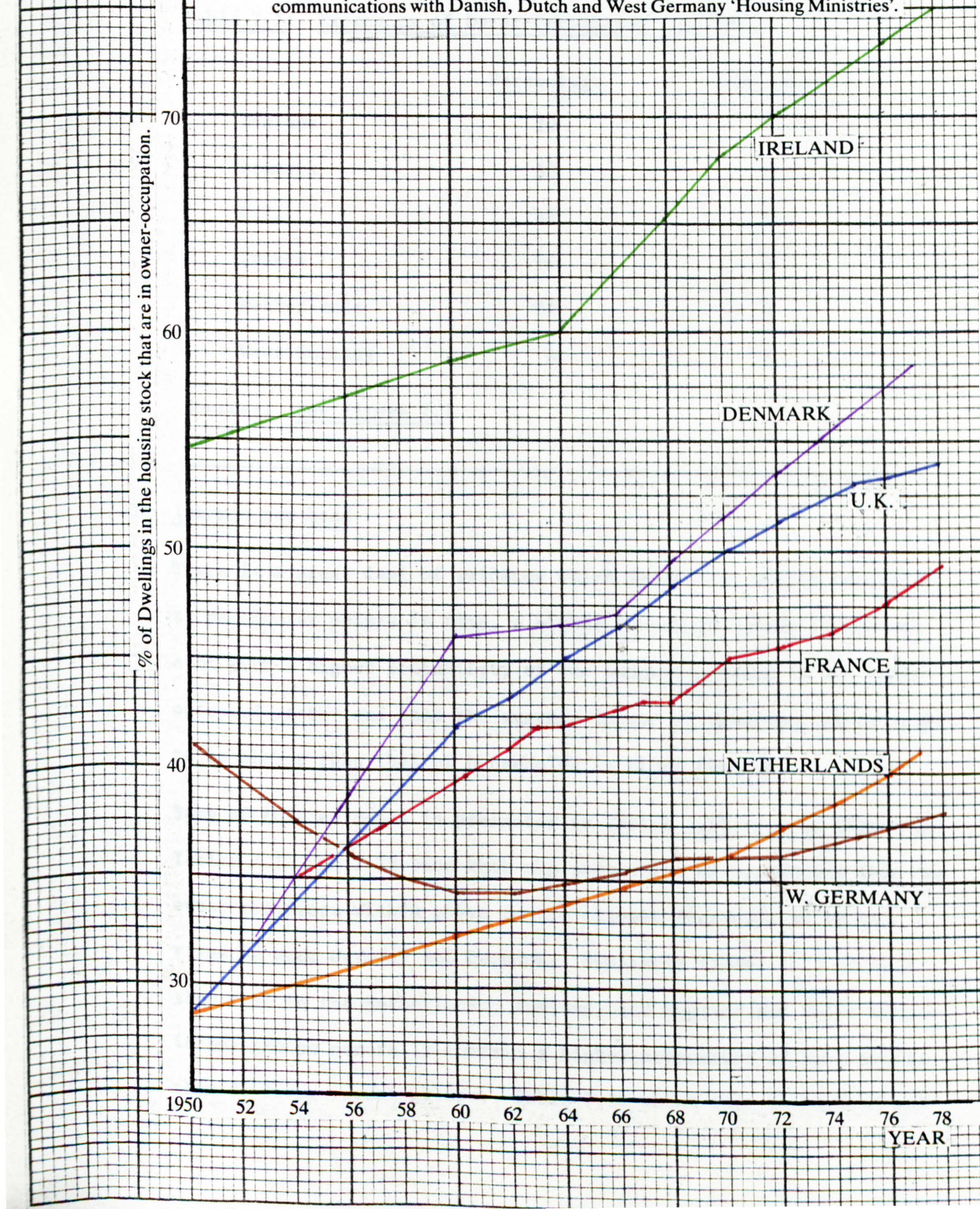
## 7.2 The expansion of the owner-occupied sector

A combination of U.N. data, material from national governments and direct communications from other researchers has been used to compile the data which is the basis of Figure 7.1. This shows the proportion of the housing stock classified as being in owner-occupied use at different points in time in each of the countries. West Germany exhibits a distinctly different pattern. In contrast to the other countries, where the owner-occupation level has increased throughout the post-war period, the level fell in the 1950s in West Germany and increased only a little in the 1960s and 1970s. West Germany has the lowest level of owner-occupation of the E.E.C. countries. Ireland, at the other extreme, has had the highest level of home ownership in western Europe throughout the post-war period. The level of home owernship in the U.K. in 1978 was higher than in France, the Netherlands and West Germany but lower than in Denmark and Ireland.

The expansion of owner-occupation over the period 1955-1977 is shown in Table 7.1. Denmark has experienced the greatest expansion of owner-occupation. Much of this has been achieved since 1965. In Ireland the level of home ownership increased steeply in the late 1960s. West Germany has clearly had the least expansion of

Figure 7.1 % Levels of Owner Occupation

*Sources:* U.N. Reports.Woheigentumsquote Report, West Germany.National Economic and Social Council, Dublin, Report on Housing Subsidies, Ireland.Social Trends, U.K. Reports on private rented sector in France, Netherlands and West Germany, C.E.S., 1978 and 1979, plus direct communications with Danish, Dutch and West Germany 'Housing Ministries'.



owner-occupation while the U.K. expansion was greater than in all the countries except Denmark. We now consider various factors which might explain these differences.

---

Table 7.1: Expansion of Owner-Occupation 1955-1977

| | Percentage | Rank Order |
|---|---|---|
| Ireland | 29 | 5 |
| Denmark | 53 | 1 |
| U.K. | 49 | 2 |
| France | 34 | 3 |
| Netherlands | 32 | 4 |
| West Germany | 6 | 6 |

Sources: See Figure 7.1

---

## 7.3 Incomes per head

There is a great deal of evidence which shows that within countries, at particular points in time, a higher household income is associated with a higher probability of the household being in the owner-occupied sector and that the average income of owner-occupiers tends to be higher than that of households in other tenures.

Some of this evidence is presented in Tables 7.11 to 7.16 (Appendix) Tables 7.11 and 7.12 show that the proportion of households that are owner-occupiers within given income classes increases as income rises in West Germany and Denmark. Similarly Tables 7.13 to 7.15 show that in the Netherlands, Ireland, and England and Wales higher income groups generally contain a higher proportion of home owners than do lower income groups. Table 7.16 shows that in England and

Wales owner-occupiers have higher mean and median household incomes than other tenure groups.

A positive association between increasing incomes and increasing levels of owner-occupation has also been found in other European countries and in the U.S.A.[1] Such findings based on cross section evidence, have led some economists to put much emphasis on income per head as a major determinant of home ownership (see, for example, Carliner, G.[2])

An examination of the relationship between national income per head and levels of owner-occupation in different countries reveals, however, that higher levels of national income are not associated with higher national levels of owner-occupation. This is apparent from comparing Figure 7.2, which shows G.D.P. per head, with the levels of owner-occupation shown in Figure 7.1. and is emphasised by the rank orders in Table 7.2. Ireland, the country with the highest level of owner-occupation throughout the period,considered, has had the lowest level of G.D.P. per head.

In the 1970's West Germany had the second highest level of per capita G.D.P. but the lowest level of home ownership. The level of G.D.P. per head clearly cannot, in isolation, explain differences in levels of owner-occupation between countries at a given point in time.

---

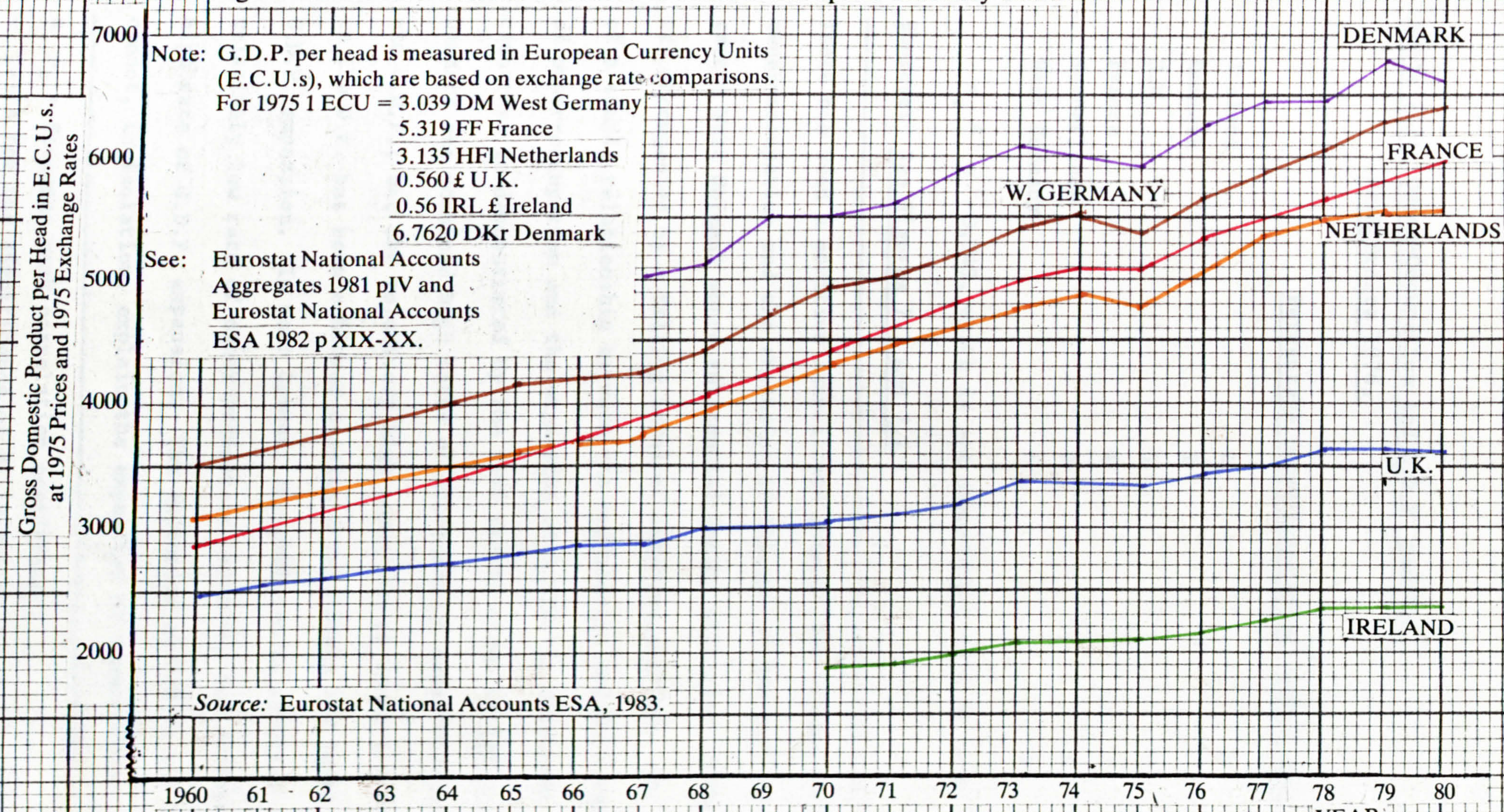
(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), 'Wohneigentumsquote: Bestimmunagsgrunde der Wohneigentumsquote in den Ländern Belgien, Dänemark, Frankreich, Grosbritannien, U.S.A., Bundesrepublic Deutschland' (Owner-Occupation Report: Belgium, Denmark, France, Great Britain, U.S.A. and West Germany).

(2) Carliner, G. (1974), 'Determinants of home ownership', Land Economics, Volume 50. pp. 109-119.

## Figure 7.2 Gross Domestic Product Per Head in European Currency Units.

Note: G.D.P. per head is measured in European Currency Units (E.C.U.s), which are based on exchange rate comparisons.
For 1975 1 ECU = 3.039 DM West Germany
5.319 FF France
3.135 HFl Netherlands
0.560 £ U.K.
0.56 IRL £ Ireland
6.7620 DKr Denmark

See: Eurostat National Accounts Aggregates 1981 pIV and Eurostat National Accounts ESA 1982 p XIX-XX.




*Source:* Eurostat National Accounts ESA, 1983.

Table 7.2: Owner-Occupation and G.D.P. per head.
Rank Orders 1976.

| | Percentage Owner-Occupation | G.D.P. per head |
|---|---|---|
| Ireland | 1 | 6 |
| Denmark | 2 | 1 |
| U.K. | 3 | 5 |
| France | 4 | 3 |
| Netherlands | 5 | 4 |
| West Germany | 6 | 2 |

$r_s$ * = -0.343, which is not significant at $\alpha = 0.10$ +

Sources: See Figures 7.1 and 7.2

---

There has been a positive association between the expansion of owner-occupation and the expansion of incomes *within* each country except West Germany where substantial income expansion in the 1950s was accompanied by a falling level of owner-occupation. The lack of a simple relationship between the comparative *relative* expansion of owner-occupation and the expansion of G.D.P. in different countries is demonstrated by the rank orders shown in Table 7.3. Denmark has combined high rates of expansion of owner-occupation and G.D.P.; but the relatively high expansion of owner-occupation in the U.K. has been achieved despite a relatively low level of G.D.P. expansion. In West Germany the position is reversed : a relatively low rate of owner-occupation expansion has accompanied a high rate of G.D.P. expansion. The expansion of G.D.P. per head cannot, in isolation, explain the expansion of owner-occupation.

---

* $r_s$ = Spearman rank correlation coefficient.

\+ Tests for the significance of $r_s$ in Tables 7.2 to 7.5 have been carried out using the procedure and tables for small numbers of observations in Owen, D.B. (1962), 'Handbook of Statistical Tables', London, Pergamon Press, pp.400-401.

Table 7.3: Rank Orders for expansion of Owner-Occupation (1955-1977) and G.D.P. per head (1956-1976).

| | Expansion of Owner-Occupation | Expansion of G.D.P. |
|---|---|---|
| Denmark | 1 | 2 |
| U.K. | 2 | 6 |
| France | 3 | 4 |
| Netherlands | 4 | 1 |
| Ireland | 5 | 5 |
| West Germany | 6 | 3 |

$r_s = -0.028$, which is not significant at $\alpha = 0.10$

Sources: The G.D.P. expansion was obtained by expressing the difference between the 1976 and 1956 levels of G.D.P. per head on EUR (European units of monetary value which are calculated from exchange rate comparisons) in Eurostat National Accounts Aggregates 1973 and 1977 (The data used in Figure 7.2 is not available for years prior to 1960) For the sources of the owner-occupation data see Figure 7.1.

---

## 7.4 Relative Price levels

If the incidence of owner-occupation within a country is increasing, the net annual additions to the housing stock must contain a significant proportion of dwellings for owner-occupation or there must be significant transfers from other tenures.

For any tenure, during any time period,

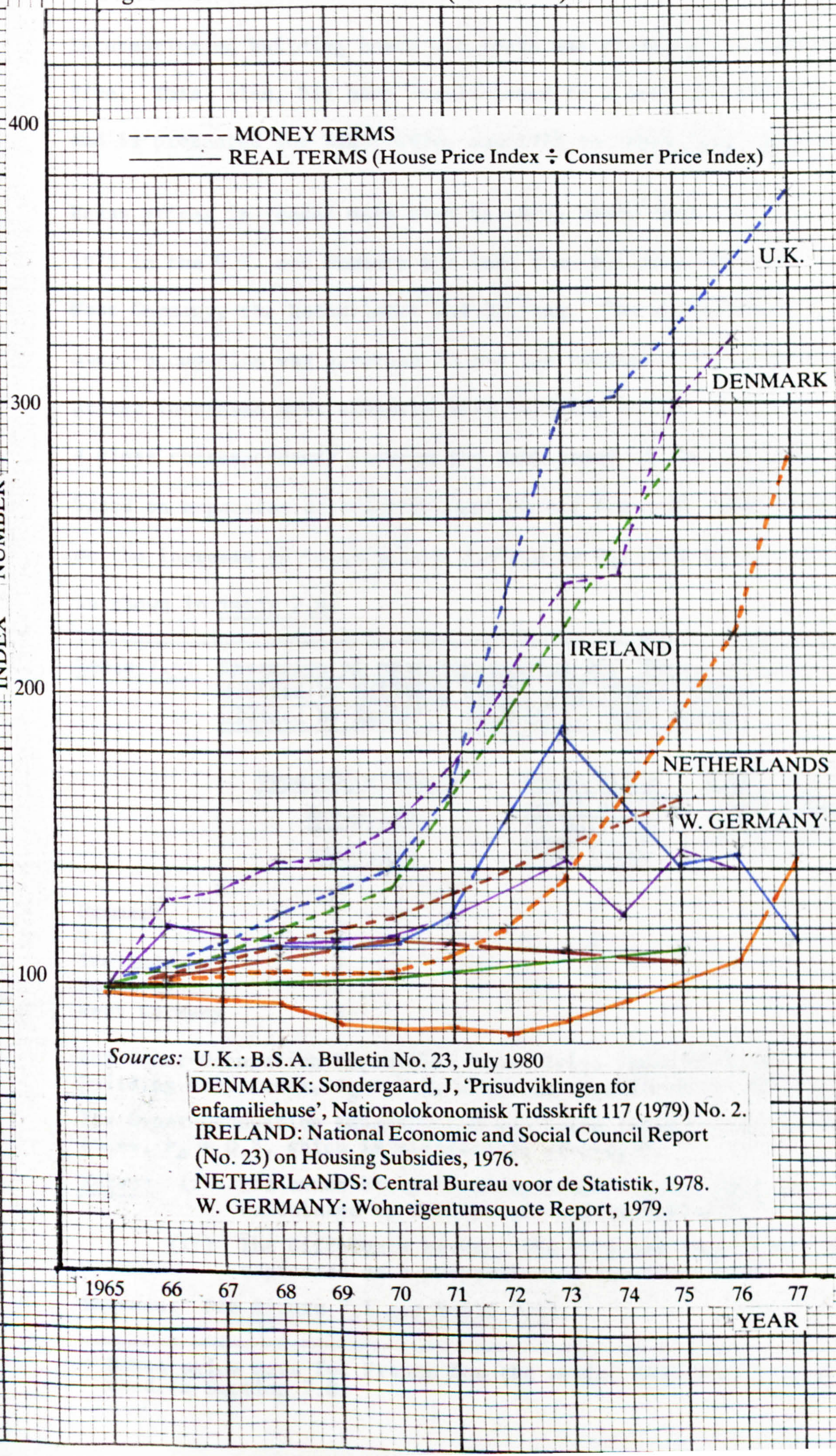
Net additions to the stock = Gross additions to the stock
- losses from the stock
+ gross transfers from other tenures,

where losses = Demolitions of buildings in that tenure + gross transfers to other tenures.

The proportion of new building which is for owner-occupation will be influenced, inter alia, by the relative profitability of such building. The profitability of new building for owner-occupation will be influenced by the relationship between house prices and building costs, and the profitability of building for renting will be related to the relationship between building costs and rents. Furthermore, if rents are being held down or are increasing only slowly while house prices in the owner-occupied sector are rising quickly this may encourage landlords, security of tenure and other regulations permitting, to sell their properties into the owner-occupied sector thus initiating transfers between tenures. The relationship between house prices, building costs, and rents may thus be of importance in explaining the expansion of owner-occupation.

While there is a great deal of information on house prices in the U.K. there is a relative paucity of published data for other countries. This is largely explained by the prominence in the housing finance market in the U.K. of a single type of institution, the building society, which has engaged in much data collection. It has been possible to make use of a variety of sources to produce detailed house price indices for Denmark and the Netherlands. These are based on annual data from 1965 to 1976 for Denmark, and to 1977 for the Netherlands. Data for 1965, 1970, and 1975, only, has allowed less detailed indices to be compiled for West Germany and Ireland. This house price information is shown in Figure 7.3. Also in Figure 7.3 the house price index divided by the retail price index shows 'real' house prices. The data from various sources have been recalculated to a common base of 1965 = 100. (The lack of sufficient house price data

Figure 7.3 House Prices 1965-77 (1965=100)




*Sources:* U.K.: B.S.A. Bulletin No. 23, July 1980
DENMARK: Sondergaard, J, 'Prisudviklingen for enfamiliehuse', Nationolokonomisk Tidsskrift 117 (1979) No. 2.
IRELAND: National Economic and Social Council Report (No. 23) on Housing Subsidies, 1976.
NETHERLANDS: Central Bureau voor de Statistik, 1978.
W. GERMANY: Wohneigentumsquote Report, 1979.

for France prevents its inclusion in this section+).

Information on building costs and rents was presented in Chapter Five. This, also, has been recalculated to a base of 1965=100 and is presented for 1965, 1970, and 1975 in Table 7.17 (Appendix).

House prices increased more than building costs from 1965 to 1975 in the U.K. and Denmark but less than building costs in West Germany, the Netherlands and Ireland. The expansion of owner-occupation was greatest in the two countries where house prices increased most compared with building costs. There is a close correspondence between the rank order of the countries based on expansion of owner-occupation and the rank order based on the increase in house prices divided by building costs. This is shown in Table 7.4.

Table 7.4: Expansion of owner-occupation and 'House Prices divided by Building Costs' and 'House Prices divided by Rents'. 1965-1975. Rank Orders.

| | Owner-Occupation Expansion 1965-1975 | House Price Index divided by Building Cost Index | House Price Index divided by Rent Index |
|---|---|---|---|
| Denmark | 1 | 1 | 2 |
| U.K. | 2 | 2 | 1 |
| Ireland | 3 | 3 | 3 |
| Netherlands | 4 | 5 | 5 |
| West Germany | 5 | 4 | 4 |

For Owner-Occupation Expansion: House Price Index divided by Building Cost Index, $r_s$ = 0.9, which is significant at $\alpha$=0.10.

For Owner-Occupation Expansion: House Price Index divided by Rent Index, $r_s$ = 0.8, which is significant at $\alpha$=0.10.

Notes: (i) The owner-occupation expansion figures have been calculated by interpolation from Figure 7.1.

(ii) The difference between the 1975 and 1965 levels is expressed as a proportion of the 1965 level.

Sources: See Figure 7.1 and Table 7.17.

+ House price data for France for the period 1956-1972 is, however, used in Section 7.8.

The information in Table 7.4 suggests a high degree of association between the profitability of building for owner-occupation and the expansion of this tenure.

An indication of the relative profitability of building for owner-occupation and building for renting is obtained by examining the relationship between house prices and rents. House prices increased more than rents in the U.K., Denmark, and Ireland from 1965 to 1975. These were the countries with the greatest expansions of owner-occupation in this period. House prices increased less than rents in the Netherlands, and West Germany, the countries with the least expansion of owner-occupation. The house price index divided by the rent index is shown in Table 7.17 and Table 7.4 shows a close relationship between the countries' rank order on this index and owner-occupation expansion. The house price/rent relationship in the U.K., Denmark and Ireland may have encouraged both a shift of building resources towards owner-occupation and sales of rented property into owner-occupation. Further points related to the supply of dwellings will be made in section 7.6.

Some consideration will now be given to the relationship between house prices and the demand for owner-occupier properties. An increase in house prices relative to rents might be expected to shift demand towards rented accommodation and restrict expansion of the owner-occupied sector. However, in the U.K., Denmark, and Ireland increases in house prices relative to rents have been associated over time with an expansion of owner-occupation. This might be due to demand not shifting away from owner-occupation

in response to the relative price change (indeed, the relative price change might be caused by 'other factors' which have increased owner-occupier demand) or it might be due to the supply of owner-occupied properties showing a significant positive response to the relative price change or, thirdly, a combination of these two effects.

Increases in house prices may not appear to have had large negative demand effects in the U.K., Denmark, and Ireland for the following reasons:-

(a) House prices may not be a good indicator of the periodic cost of accommodation.

The burden on the household will be reduced by tax relief on mortgages and, over time, by inflation. The U.K., Denmark and Ireland are the countries with the most generous tax reliefs for owner-occupiers and the highest rates of inflation.

(b) There have been restrictions in the availability of the obvious substitute good. Increases in 'potential demand' for rented accommodation consequent on house price increases have not always been expressed due to limited supplies of rented accommodation.

In the U.K., at least, although rents increased less than house prices, rented accommodation has been in short supply.

.....A West German government report[1] has attempted to examine

---

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), op.cit. Section 4 : Conclusions or 'Overall assessment' has been translated as British Library translation RTS 12460A, 'Wohneigentumsquote 1979 Section 4', pp.69-74, March, 1981.

the causes of the low level of owner-occupation in West Germany compared with that in Denmark, Great Britain, Belgium and the U.S.A. This report argues that "Although it may generally be assumed that there are enough rented apartments on offer.....this is not absolutely true in the case of Great Britain: here the desolate situation in the private rented accommodation sector, at least in the higher quality and price brackets, means that there is additional pressure to become an owner-occupier. However this is clearly a problem which relates specifically to Great Britain".(1)

(c) Increases in house prices may lead to expectations of further increases and an increase in house prices compared with inflation.

This may encourage households to become owner-occupiers earlier in their life cycle than in a situation where house price inflation is lower. The average age of first-time buyers is lower in the U.K. and Denmark than in West Germany. Earlier moves to owner-occupation will increase the owner-occupation rate. Both general inflation and increases in house prices may encourage owner-occupier demand. In relation to Denmark it has been argued that "The favourable combination of inflation and inflation-sensitive fiscal advantages means that even households in lower income groups, provided that they are able somehow to meet the repayments, are buying property in the expectation that prices will continue to increase. In this connection

---

(1) ibid., translation p.3.

the accumulation of own capital presents no problem in view of the almost unlimited possibilities for outside financing. This description is also applicable to the U.K." (1)

(d) There may be significant 'investment' as opposed to 'accommodation' demand for owner-occupied housing. The expected capital growth from owner-occupation may be an important reason for demanding such property.

It was not possible to identify and obtain information for the performance of a fully representative range of investments which may be alternatives to owner-occupied dwellings. However, share prices provide a useful proxy. The O.E.C.D. 'Main Economic Indicators' presents an index which shows the performance of shares in each country. The share price index for the U.K. is the Financial Times actuaries 500 share index and an approximately equivalent indicator is used for other countries. The O.E.C.D. information is based on a series of base years. The data has been recalculated to a common base of 1965=100. The relationships between share prices and house prices are shown in Table 7.18 (Appendix) and in more detail for the U.K., the Netherlands, and Denmark in Table 7.19 (Appendix) (Lack of detailed house price data for other countries prohibits a similar presentation for them).

House prices 'out-performed' share prices in each country in the period 1965-75 and grew more than inflation in each country. Share prices declined in real terms. However,

---

(1) ibid., p.9.

share prices, especially in money terms were much more volatile than house prices. The significant differences between the countries are in the *relative* performance of house prices and share prices. This is summarised in Tables 7.18 and 7.19 by the house price index divided by the share price index. The relative rankings of the countries on this index and the owner-occupation expansion index are shown in Table 7.5.

Table 7.5: Expansion of owner-occupation and house prices divided by share prices 1965-75. Rank Orders.

| | Owner-Occupation Expansion | House Price Index divided by Share Price Index |
|---|---|---|
| Denmark | 1 | 3 |
| U.K. | 2 | 1 |
| Ireland | 3 | 2 |
| Netherlands | 4 | 4 |
| West Germany | 5 | 5 |

$r_s$ = 0.7, which is significant at $\alpha$=0.1.

Sources: See Figures 7.1 and 7.3; and O.E.C.D. 'Main Economic Indicators'.

There is a close relationship between the capital growth performance of housing compared with shares and the expansion of owner-occupation. The investment demand for owner-occupation has probably been higher in the U.K., Denmark, and Ireland than it has been in West Germany and the Netherlands. A Danish report for the West German government argues that inflation has encouraged home ownership in Denmark and the tax regulations (lack of capital gains tax) have encouraged investment in housing at the expense of other

investment outlets: "The existing tax regulations governing profits due to inflation favour the acquisition of house property and other forms of real property in relation to other investment possibilities. In some periods - especially in excess demand situations - the result has been a starvation of investment resources for productive purposes". (1)

The Royal Commission on the Distribution of Income and Wealth has charted the decreasing significance of shares and increasing importance of housing as a form of wealth holding in the U.K. The findings in summary form are shown in Table 7.20 (Appendix). Home ownership clearly accounted for a more significant share of personal wealth in 1976 than in 1960 and shares and other financial assets for less. In the U.K. increasing pwner-occupation has been associated with an increasing investment demand for property. It is unlikely that this investment motive for home ownership has been as strong in West Germany and the Netherlands.

A further point relating to house prices and demand concerns the relationship between house prices and income levels. The July 1980 B.S.A. Bulletin(2) presents information on the house price: earnings ratio in the U.K. since 1956. The ratio fluctuates

---

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn, 'Report on Denmark : The Owner-Occupation Rate'. Undated and unpublished report prepared for the Federal Ministry by consultants in Denmark (supplied by the Federal Ministry for Regional Planning, Building and Urban Development).

(2) Building Societies Association (1980A), 'House Prices and Earnings' B.S.A. Bulletin Number 23, July, pp.24-30.

around a long term trend of about 3.3. The exceptionally high figure of 4.95 was reached in 1973. The figure for 1980 was 3.8 Such data for other countries is not available although some individual estimates have been obtained. West German housing officials suggested a figure for their country of "about 8" for 1979.(1) For France the figure was between 3.1 and 4.1 from 1970 to 1973.(2) An estimate for the Netherlands in 1979 is "4.7".(3) and a Danish source suggests a figure of "between 4 and 5".(4) Houses are more expensive in relation to earnings in West Germany than in the U.K. and this may contribute to the lower rate of owner-occupation in West Germany, but approximately similar house price/earnings ratios in Denmark and the Netherlands are associated with widely divergent levels of owner-occupation. Relative house price/earnings ratios may help explain owner-occupation differences between countries but there is insufficient evidence to suggest that in such ratios lie the primary reasons for the varying levels of home ownership.

## 7.5 The Cost and availability of credit

The relative cost of acquiring owner-occupier accommodation as opposed to renting is crucially affected by the terms on which one can borrow money for house purchase and the house purchase decision for fist-time buyers will be influenced by the size of deposit required. Small deposits, low rates of interest, and

---

(1) Dick, E. (1980), Private discussion at Federal Ministry for Regional Planning, Building and Urban Development, Bonn 17th June.

(2) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), op.cit., Table 5.

(3) Kampschoer, A.J.M. (1980), Private discussion at Ministry of Housing and Physical Planning, The Hague, 30th September.

(4) Sondergaard, J.(1980), Private discussion at the University of Aarhus, 6th October.

easily available long term loans are all likely to encourage owner-occupation. Differences in the cost and availability of mortgages are vital in explaining variations in home ownership levels between countries. The low percentage deposits and long term credit arrangements in Denmark, the U.K. and Ireland contrast with the higher deposits and shorter term credit arrangements in West Germany, the Netherlands and France.

Attempts to assess average deposits as a percentage of average annual income suggest that the West German figure is "between 200 per cent and 340 per cent", the French "220 per cent", the U.K. "130 per cent", and the Danish "between 20 per cent and 80 per cent". Average "own capital contributions" as a percentage of house price in the 1970s are given as West Germany 41 per cent, France 55 per cent, U.K. 30 per cent, and Denmark 10 per cent.(1) In each country except West Germany the cost of finance has been reduced by mortgage interest tax relief. This is not subject to any limits in Denmark and the Netherlands but there is a limit by size of mortgage in the U.K. and by amount of interest in France and Ireland, and in the latter case there is also a limit by house size. The significance of these limits will be discussed in section 7.7

The cost and availability of mortgage finance is largely dependent on the type of housing finance system. There are three basic types: the 'contract', 'savings bank', and

---

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), op.cit.

'mortgage bank' systems.(1)

The contract system requires that a loan be preceded by a contractural savings period. A high proportion of the money lent for house purchase is saved by prospective house purchasers. It is, thus, sometimes termed a 'closed system'.

The savings bank system depends on the collection of short term savings deposits largely from those who do not seek loans. These short term deposits are transformed into long term mortgage loans typically at variable rates of interest.

In the mortgage bank system funds are acquired by issuing long term bonds and long term loans are given at fixed rates of interest. West Germany relies heavily on the contract system operated by the bausparkassen (although it also has elements of the savings bank and mortgage bank systems).

The savings bank system operated by the building societies predominates in the U.K. and Ireland, while Denmark relies almost entirely on the mortgage bank system operated by 'mortgage credit associations'. In the Netherlands there are savings bank and mortgage bank systems while in France there are these and the contract system.

The importance of the contract system in West Germany contributes to a situation in which a substantial savings period is an essential pre-requisite to becoming an owner-occupier. As Table 7.6 shows, the bausparkassen, the specialist housing finance institutions, were responsible for over half the house purchase finance by value in 1977. Furthermore, as most borrowers use

---

(1) Building Societies Association (1979), 'An International Comparison of Housing Finance Systems', B.S.A. Bulletin Number 20, October, pp.14-26.

more than one source of finance and assemble a 'loan package' these institutions participated in the finance of over 90 per cent of new dwellings for owner-occupation.

Table 7.6; Sources of House Purchase Finance West Germany, 1977.

| | |
|---|---|
| Savings Banks | 23 per cent |
| Mortgage Banks | 19 per cent |
| Insurance Companies | 5 per cent |
| Bausparkassen | 54 per cent. |

Source: B.S.A. Bulletin No.21. January 1980, Table 25.

A potential borrower agrees a 'contractual' sum with a bausparkassen and must save at least 40 per cent of this sum over two years. After two years the borrower is eligible for a loan but may have to wait up to another two years before he is granted one. The loan,which has a fixed rate of interest and is for a period of 8 to 12 years,is for a maximum of 150 per cent of the amount saved. The government supports the system by giving savers or borrowers a tax free allowance. As an alternative to waiting for a contract to 'mature' a potential home owner might take out loans from savings banks, mortgage banks or commercial banks at market rates and repay part of these loans with a bausparkassen loan at a later stage. These loans are usually at fixed interest rates and at least 20 per cent of own funds will be necessary for purchase.

Substantial savings are necessary if one is to become an owner-occupier in West Germany, and this helps explain why the average age of the first time buyer has been about 10 years more than in

the U.K. (about 35 years compared with 25 years). A West German housing economist has argued of the bausparkassen operations that "The basic problem associated to this system is ..... that many, especially the financially less powerful savers do accumulate savings at a rate below the general rate of inflation in the economy and in particular, the rate of inflation in construction costs. Thus, they are not able to accumulate the fraction of capital required for the financing of their home. This fraction of 20 - 30 per cent is unusually high in the Federal Republic of Germany. The savings deposits of such savers then only serve to provide loans to more successful savers and to increase the liquidity of the bausparkassen".(1) Housing finance is less easy to obtain under the contract system than under the other systems of housing finance.

The situation in West Germany contrasts dramatically with that in Denmark where very low deposits are required and no savings record is needed in order to secure a loan and "mortgage funds are always readily available" (2) at the current market rate of interest. Loans are at fixed interest rates for periods of 20 to 30 years. Funds are raised by the issue of long term bonds which are purchased by a variety of institutions including banks and pension funds. The availability of credit when combined with other favourable factors in Denmark has probably had a

---

(1) Pfeiffer, U.(1976), 'Background information on the current housing situation and housing policy in the Federal Republic of Germany', Unpublished paper supplied by the author, The West German Federal Ministry for Regional Planning, Building and Urban Development.

(2) Building Societies Association (1980B),'An International comparison of Housing Finance Systems',B.S.A. Bulletin, Number 21, January, p.24.

significant effect on the growth of demand for owner-occupier properties. Of Denmark, it has been argued that "High rates of inflation, high tax rates, and the availability to the owner of inflation - sensitive fiscal relief are here combined with favourable conditions in the capital market to provide the most important reasons behind the increase in the proportion of owner-occupiers".(1)

In France, reductions in the cost and improvements in the availability of credit have played an important part in raising the level of owner-occupation since 1966. Until 1966, with a few exceptions, "All that prospective home-owners could obtain by way of finance from the banks and specialised financial institutions would be loans granted for a term not exceeding 10 years as a rule, and at a rate of interest which, in practice often reached as high as 14 to 15 per cent per annum".(2)

A secondary mortgage market was set up in 1966 in order to "lengthen the duration of credits for housing and reduce its cost and, in parallel, ensure the lending institutions means of negotiating their mortgage claims i.e. turning them into cash"(3), and thereby to increase home ownership. Financial institutions, principally banks and insurance companies, can liquify long term mortgages which meet certain conditions relating to the length of loan, rate of interest and the house purchaser's personal contribution. Mortgage debts are represented in the market by

---

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), op.cit, translation p.13.

(2) Banque de France (1971) Information Note, October. Included in translation in O.E.C.D. (1974), 'Housing Finance: Present Problems', pp.50-57.

(3) ibid., p.50.

'Billets de Mobilisation' which are traded in multiples of 100,000 francs. The market is supervised by the state-controlled Crédit Foncier. The Banque de France has claimed that "The setting up of the mortgage market in September 1966 resulted in a rapid expansion in long term housing loans and an appreciable fall in the rates of interest charged". (1)

The French government has attempted to encourage savings for house purchase and an increase in the supply of housing loan funds by introducing housing savings accounts and housing savings plans under the 'Épargne - logement' schemes. Epargne logement is operated by the financial institutions but attracts state interest bonuses and tax relief. Deposits in the 'accounts', which have operated since 1965, attract a tax free interest rate and if a loan is granted a tax free bonus equal to the accumulated interest. A minimum savings period of 18 months must precede the loan which is available for a period of 2 to 15 years. The maximum size of loan is related to the amount saved.

The 'plans', introduced in 1969, have been much more significant in attracting funds. The minimum savings period is 4 years. An important difference from the accounts is that a state bonus is payable whether or not a loan is taken out.

Further measures to reduce the cost of house purchase finance were introduced in 1977 as a result of the recommendations of the Barre Committee. In this respect two measures are of particular importance; (i) Prêtes Aides a l'Accession à la propriété (P.A.P.) and (ii) Aide Personnalisée au logement (A.P.L.).

---

(1) ibid., p.54.

P.A.P. are subsidised loans, available for up to 20 years, to statutorily defined "low income" households. They are available to purchase principal residences which must conform to size and cost limits. They are issued by Crédit Foncier and Crédit Agricole, the latter being a federation of co-operative banks through which the government channels various housing subsidies. A.P.L. is the means tested housing allowance discussed in Chapter Six. It is available to owner-occupiers of dwellings constructed or improved since 3rd January 1977. A.P.L. helps to reduce mortgage payments and is usually paid directly to the lending institution.

The cost of credit to house builders is also reduced in France by state subsidies. Thus 'special circuits' (see Chapter Four) operate for both the purchasers and producers of housing. Subsidised loans to house builders are also available in the Netherlands and West Germany but not in the U.K. or Ireland. The long term credit available in Ireland from the building societies and local authorities is made especially 'cheap' by subsidies for purchasers of council houses and new houses meeting given requirements. These points will be taken up in section 7.7.

The relatively low deposits and cheaper credit in Ireland, Denmark, and the U.K. appear to help to explain the higher levels and greater expansion of home ownership in these countries than in West Germany with its more stringent financial conditions for house buyers. Reductions in the cost and increases in the availability of credit in France accelerated the expansion of owner-occupation in the 1970s. The home ownership level was over

50 per cent in France by 1979. An increasing proportion of housing starts in the late 1970s were for owner-occupation: 49 per cent of starts in 1975 and 64 per cent in 1978.

## 7.6 The supply of dwellings for owner-occupation

The supply of dwellings for owner-occupied housing must come from new building or transfers from other tenures. Households entering the tenure - first-time buyers - must purchase a new house, a second-hand house which is being vacated for some reason (perhaps because of 'trading-up' or household dissolution) or a house which is being transferred to the tenure, e.g. a sitting tenant buying from his landlord. Differences in both the level of owner-occupation between countries and the expansion of owner-occupation over time are associated with differences in the supply of additional dwellings for owner-occupation. The different sources of supply will now be considered in turn.

### (i) Newly constructed dwellings

It has been estimated that 13.3 million dwellings were built in West Germany between 1950 and 1975; 4.5 million or about 34 per cent were for owner-occupation.(1) In the same period 52 per cent of all dwellings built in the U.K. were for the private secotr. Very few dwellings for private renting were built in this period. Clearly, a much higher proportion of new building in the U.K. was for home ownership. The lower proportion in West Germany reflects, in part, the profitability of and subsidies for renting. It also reflects the emphasis in post-war West Germany on building dwellings quickly to meet a severe housing shortage. It has

(1) Hallett, G. (1977), 'Housing and Land Policies in West Germany and Britain', London, Macmillan, p.14.

been argued that "The shortage of available living space for households (as a result of war damage, restrictions on housing production during the war years and the refugee problems) was on the whole greater in the Federal Republic of Germany than in other countries. .....It would have been entirely unthinkable in the Federal Republic of Germany to concentrate public funds and the personal expertise of the municipal authorities and government departments on increasing ownership through exchanges, i.e. measures to increase ownership without expanding capacity as was done in Great Britain. .....The construction of rented accommodation was capable of being organised more cheaply and with fewer problems than the construction of owner-occupied accommodation". (1) More construction was more important than more home ownership in post-war West Germany and the maximisation of production, within the resource constraints, took precedence over a large scale promotion of home ownership.

As argued in Chapter Five, a reduction in direct subsidies for the construction of rented accommodation was associated in Europe in the late 1970s with reduced completions of both private and non-profit rented dwellings, and the total numbers of housing completions was generally declining from 1975 onwards but an increasing proportion was for owner-occupation. This was the case in France, the Netherlands, and Denmark as well as West Germany. In 1978 about 60 per cent of completions in West Germany were for owner-occupation

---

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), op.cit., translation,p.11.

(c.f. 34 per cent for 1950-1975 noted above). The increasing proportion of owner-occupied building in France, the Netherlands and Denmark is apparent in Table 7.21 (Appendix). As noted in previous chapters, the declining support for the non-profit sector and the growing proportion of completions for owner-occupation has been viewed with much concern in some countries. In Denmark, for example, the Federation of Non-Profit Housing has argued for a reversal of this trend. Reductions in support for non-profit housing have been defended by governments in terms of public expenditure arguments and the desirability of switching from 'object' to 'subject' subsidies. The arguments about object and subject subsidies were examined in earlier chapters. It is important to stress here that arguments in favour of reduced 'object' subsidies have led to an increase in the proportion of building for owner-occupation.

In Ireland, owner-occupied housing was responsible for over 70 per cent of housing completions in most years in the 1970s, although, as Table 21 shows, there was a fall in the proportion in 1975 and 1976. The upward trend in construction up to 1975 contrasts with a downward trend in Britain. In Ireland, owner-occupation starts remained high although an increasing number of council houses were built. In the late 1970s in Britain the increasing share of owner-occupation was associated with significant falls in both construction overall and in council house building in particular. (There were 185,000 public sector completions

in 1969, 169,000 in 1976, and only 105,000 in 1979). In Britain, in contrast particularly to France and Denmark, the increasing proportion of owner-occupied construction was associated with a fall in total owner-occupied completions in the late 1970s. Despite the rising proportion of owner-occupied starts in each country Britain is different in that the total numbers of completions for owner-occupation fell.+

Political decisions about the level of public sector (including non-profit) building in each country crucially affect, in the long run, the proportion of owner-occupied housing completed and the proportion of such housing in the total stock. Owner-occupation is increasing in Europe as the level of public sector production falls.

(ii) Transfers from other tenures

The owner-occupied sector in the U.K., Denmark, and Ireland has been augmented by significant transfers from the rented stock. As noted in Chapter Five, 1.1 million dwellings that had been rented privately were sold into owner-occupation in England and Wales from 1960 to 1975. These dwellings comprised, at the end of 1975, about 10 per cent of the owner-occupied stock of houses in England and Wales. This contrasts with West Germany where, in the post-war period, there has been "no large scale selling for owner-occupa-

---

+ Total numbers for owner-occupation construction were:-
France (starts) 1975 250,284; 1978 280,320.
Denmark (completions) 1975 25, 567; 1978 30,567.
Great Britain (completions) 1975 150, 240; 1978 148,850; 1979 134,630 (National Governments' data).

tion".[1] The reasons for the transfer in Britain lie partly with legislation affecting the private rented sector (see Chapter Five) and the growth of house prices which has made sales highly profitable. In West Germany, however, "As a result of the.....low level of attraction of second-hand accommodation.....in conjunction with the relatively sound profitability of owning rented accommodation compared with some countries (France, Great Britain) the owners of rented accommodation had no compelling reason to change". The "low level of attraction of second-hand accommodation" was, furthermore, associated with tax advantages for buying new but not second-hand property and, for some of the flats, the "barrack-like buildings".[2]

In Denmark, changes in the law which have enabled many flats to be sold into owner-occupation played a major part in the development of owner-occupation in the 1970s. The number of owner-occupied flats grew from about 7,000 to over 60,000 from 1970 to 1977. The relevant legal changes were made in 1966 and despite a special tax on such sales, introduced in 1977, considerable profits can still be made by landlords selling for owner-occupation.

Flats generally pose more legal problems of transfer than other types of dwelling. Owner-occupation expansion in the U.K. has been aided by a large supply of terraced

---

(1) Centre for Environmental Studies (1979), 'Private Rented Housing in West Germany'. Draft Report, January, (Unpublished).

(2) Federal Ministry for Regional Planning, Building and Urban Development, Bonn, (1979), op.cit., translation, p.6.

housing which has changed from the rented to the owner-occupied sector. The expansion of home ownership must, in all the countries, be viewed together with the reasons for the decline of the private-rented sector which were discussed in Chapter Five.

In contrast to the other countries, where sales of non-profit rented dwellings have been comparatively unimportant, in Ireland and the U.K. sales of council houses have provided an important supplement to the supply of owner-occupier housing. In relation to the stock, sales have been most significant in Ireland. Measuring total sales as a proportion of total council rented properties at the end of a period, sales in Ireland amounted to 3.9 per cent in 1970-1, 6.0 per cent in 1972-3, and 11.5 per cent in 1975.(1) In England and Wales 1.3 per cent of the public sector dwelling stock was sold or leased in 1972, and "during 1974-6 the figure was 0.1 per cent rising to 0.8 per cent by 1979".(2) Sales at 1975 levels in Ireland suggested about 1.4 per cent of the total dwelling stock changing tenure, but in England and Wales council house sales in 1972 amounted to only about 0.23 per cent of the total dwelling stock. It would take about three years at this level to raise the owner-occupation rate by 1 per cent. However, while in the past council house sales contributed only in small measure to the growth of owner occupation their significance has increased since 1979. In Ireland, The

---

(1) Department of Local Government, Dublin (1977), 'Quarterly Bulletin of Housing Statistics', June, Tables 23 and 24.

(2) H.M.S.O.(1981), Social Trends Number 11, p.146.

National Economic and Social Council has argued that council house sales are proceeding because "the encouragement of owner-occupation has become a dominant aim of housing policy", but "the tenant purchase scheme gives a relatively large subsidy to one particular group.....to the extent that the tenants who purchase dwellings are those with relatively higher incomes - and this is likely - then the effects of the sales scheme works in a regressive direction".(1) Furthermore, the scale of sales is likely to reduce the number of dwellings available for the least well off and councils will be left managing the most unattractive portion of the stock.

Similar arguments against the sale of council houses have been advanced in Britain, and, additionally, the alleged financial advantages to the public sector have been subjected to much questioning. It is not appropriate to examine here the arguments for and against council house sales. However, it is appropriate to stress that there are arguments which suggest that the pursuit of increased home ownership through increased council house sales might well conflict with other housing policy objectives; even the basic aim of a "decent home for all families at a price within their means".(2)

(iii) Sales of the existing stock of owner-occupied dwellings

Many first-time buyers in the U.K. purchase a second-hand rather than a new house. The plentiful supply of second-

---

(1) National Economic and Social Council, Dublin (1976), 'Report on Housing Subsidies', p.14.

(2) See Chapter Two, especially section 2.2.

hand houses in the U,K, is in contrast to the other countries. In 1979 about 87 per cent of dwellings sold in Great Britain were second-hand properties, (in 1978 about 86 per cent). 535,000 dwellings were, in 1979, supplied by owner-occupiers moving and 355,000 by household dissolution and moves to other tenures. Thus "the most important component of supply is houses put on the market by owner-occupiers moving".(1) In other countries much higher proportions of house sales are sales of new houses. In the Netherlands, for example, in 1978 37 per cent of sales were of new dwellings and in Denmark at least 25 per cent of sales were of new dwellings. In Britain about 7 per cent of the owner-occupied stock is traded each year, in France between 4 per cent and 5 per cent, and in West Germany less than 3 per cent. The average length of stay of about seven years in a dwelling in the U.K. contrasts with over twenty years in West Germany. This low rate of turnover in the stock has had a depressing effect on the level of owner-occupation in West Germany. It has been argued that in West Germany in the post-war period "Because of the exceptionally small market for available second-hand owner-occupied accommodation, low income households which were prepared to become home owners had scarcely any possibility of avoiding the high prices charged for new houses".(2) Those new houses that were available were highly priced and this was partly because prices were influenced by high

---

(1) Building Societies Association (1981), B.S.A. Bulletin Number 25, January, p.24.

(2) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), op.cit., translation, p.6.

statutorily imposed construction standards.

The relatively larger proportion of second-hand property traded in the British housing market is reflected in Table 7.22 (Appendix) which shows that the volume of mortgage advances for new housing is comparatively low in Britain. A much higher proportion of housing finance supports new construction in other countries-- even in Ireland which has a similar housing finance system. Table 7.22 shows that in both Denmark and Ireland, which have higher levels of owner-occupation than the U.K., substantially more house purchase finance has been provided for new dwellings.

The British building society movement claims a significant role in promoting house building and encouraging owner-occupation, but to a large extent it is merely promoting house exchange. Table 7.22 shows that in the late 1970s a decreasing proportion of advances from building societies was for new dwellings. Furthermore, an examination of advances to first-time buyers shows that these were 45.3 per cent of all loans in 1979 compared with 63 per cent in 1969.(1) An increasing number of mortgages and an increasing proportion of total mortgage finance in the 1970's was going to former owner-occupiers. Building society statistics suggest that over 56 per cent by value of mortgages went to former owners in 1979.(2)

---

(1) Building Societies Association (1980A), op.cit., Table 9, p.10.

(2) ibid.

It has been suggested in conversations at the West German Federal Ministry for Regional Planning, Building and Urban Development that measures to increase owner-occupier demand are likely to have more significant effects on the output of new housing in West Germany than in the U.K. because of differences in the price structure and rate of turnover in the stock.(1) In West Germany a lower rate of turnover in the stock and a lack of small old cheap houses (compared with the U.K.) means that a higher proportion of first-time buyers (and all buyers) in West Germany purchase new houses.

There are dangers in relying on increasing the availability of finance and increasing housing demand as the means to promote owner-occupation in the U.K. Unless there are substantial increases in the supply of new owner-occupier houses, or very large increases in sales of council houses, factors which increase demand, such as increased supplies of housing finance, will serve further to increase the rate of turnover in the stock and push up house prices. Higher house prices may in turn encourage new production and increase the level of owner-occupation but only if the price increases outpace concomitant increases in building costs, and even then with the possible consequence of making home ownership even more difficult for the less well-off.

---

(1) Dick, E. (1980), op.cit.

## 7.7 Subsidies to owner-occupiers

The principal methods used to subsidise owner-occupation have been described in Chapter Four and an analysis of measures to increase the demand for owner-occupied properties was given in section (ii)(a) of Chapter Four, while section (ii)(b) dealt specifically with attempts to increase the demand for new owner-occupier housing. Some further comments on the ways in which governments influence the financing of owner-occupied housing have been made in section 7.5.

The preceding material will now be used in order to draw certain points of contrast between the ways that different countries encourage home ownership and to identify the policy significance of the different approaches. In particular, the position in the U.K. contrasts with that in Ireland, the Netherlands, France, and West Germany regarding the non-selective nature of the demand subsidies and the lack of supply incentives in the U.K.

Governments can encourage the demand for onwer-occupier property and they can encourage supply. In encouraging demand governments can select certain 'target groups' e.g. low income households, first-time buyers or purchasers of new houses, and give particular help to such groups or they can try to raise the general level of demand for owner-occupation. Other countries give more weight to 'target group' orientated policies than does the U.K.

Mortgage interest tax relief exists in each of the countries except West Germany. However, in Ireland and France it is relatively limited, in both cases partly by the amount of interest allowed. Additionally, in Ireland only houses below 117 square

metres in area qualify. In France the limits increase with the size of family and tax relief is for ten years only. These systems make the subsidies less favourable to high mortgage and high income earners than is the case in other countries. In France and West Germany the housing allowance systems, A.P.L. and Wohngeld respectively, help with mortgage payments for low income purchasers. The aid is greatest for those on the lowest incomes. In West Germany the income tax benefits which operate as an alternative to mortgage interest tax relief are equal to a tax allowance of 5 per cent of the price of the dwelling but only for eight years and with limits as to the price of the dwelling. Further land tax concessions apply to purchasers of *new* owner-occupier housing.

In the Netherlands the government has introduced measures to encourage the demand, by low income families, for *new* owner-occupier dwellings. The subsidies for these 'premium dwellings' were detailed in Chapter Four. Grants, which fall with increasing income are paid to households purchasing new houses within prescribed price limits. On sale, a proportion of the proceeds must go to the municipality which also fixes the land prices for these dwellings and requires prescribed building standards to be met. In France, low income owner-occupiers receive low cost loans (Prêts aides à l'Accession à la Propriété). The dwellings must conform to detailed size and cost limits.

Further examples of aid for specific categories of demand for owner-occupier dwellings relate to Ireland where first-time buyers of *new* houses receive lump-sum grants and the 'low rise mortgage scheme' helps council house tenants and those on council

waiting lists to buy houses (not necessarily council houses). Under this scheme mortgages of up to 98 per cent of the purchase price of a private house (100 per cent for council houses) are available for up to 30 years and the State makes direct contributions to the mortgage repayments for the first nine years of the mortgage. The contributions fall gradually over time. Council house tenants obtain discounts, depending on the length of time they have been tenants, of up to 30 per cent of the purchase price of the dwelling.

In the U.K. no specific aid is given to the suppliers of owner-occupier housing. In West Germany, however, low cost loans and also grants are available under the First and Second Förderungsweg (see Chapter Four) to encourage the construction of owner-occupier houses within given cost and size limits, and in France house builders can obtain various low cost loans if the housing is within prescribed price limits. In Ireland from 1970 to 1975 lump-sum grants were paid to builders. These grants varied with the size of the house.

It was argued in section (ii)(a) of Chapter Four, with the aid of Figure 4.3 that measures to increase the demand for owner-occupied housing will have significant price and economic-rent effects and these effects will be greater the more inelastic is the supply of accommodation. In section (ii)(b) with the aid of Figure 4.4. it was argued that measures to increase the demand specifically for new owner-occupied houses may be more effective in increasing output and have less pronounced price and economic-rent effects. In section (ii)(c) it was argued that while subsidies to builders may have economic-rent effects in the land market

these effects would be associated with increases in output, and taxation could be used to reduce or remove the economic-rents received by landowners.

Compared with the U.K., the other countries in this study (with the arguable exception of Denmark) have been more selective and more 'target group' orientated in their encouragement of demand, and have introduced measures likely to have more direct effects on the supply of new owner-occupier property. The economic-rent and price increasing effects of policies is likely to be lower in such countries. Ireland with the highest level of owner-occupation, has provided substantial demand subsidies, but in a more selective fashion than in the U.K., and has also encouraged supply. It has achieved considerable growth of owner-occupation with a level of house price inflation which has been lower in real terms than in the U.K. and Denmark. (See Figure 7.3).

Denmark has, like the U.K., encouraged demand generally with mortgage interest tax relief (In fact the relief is 'open-ended' in Denmark, there being no upper interest or mortgage size limit) and has, in recent years, given no specific subsidies to supply. The level of house price increases has in real terms been slightly lower, however, and the rate of increase in owner-occupation higher in Denmark than in the U.K. These higher relative output and lower relative price effects in Denmark are associated with a greater proportion of first-time buyers purchasing new housing and, significantly, strict controls in the land market. A high proportion of land for housing development is purchased by the municipalities and resold to builders or to the house purchasers directly who commission a builder. The municipality

can thus appropriate any economic-rent element in the land market. It is probable that subsidies to owner-occupier demand have higher price and economic-rent effects both for existing house owners and land lowers, in the U.K. than in the other countries in this study. This throws some doubt on the ability of indiscriminate demand subsidies to raise both output and the proportion of owner-occupation in the stock in the future.

The British Green Paper (1977) maintained that "An increasing number of people want to own their own home. The Government welcome this trend and ..... intend to continue to support home ownership by maintaining the current arrangements for tax relief and option mortgage subsidy".(1) It was argued that "There are two main obstacles which lie in the path of the steady growth of home ownership in the years ahead. The first is the terms on which mortgages are made available. .....The second obstacle is the supply of mortgage funds.(2) There were a series of proposals concerning, for example, 'Low-start mortgages', 'Higher percentage mortgages', 'Increased availability of loans on older properties', 'A stable supply of mortgage funds' and 'An adequate supply of mortgage funds'. The principal concrete result has been the provision of 'savings bonuses' to first-time buyers who have been saving to buy their own home. Under the scheme, which came into operation in 1980, there is a cash bonus and a loan which is interest free for five years to those who have saved for two years and have kept a required amount in savings for 12 months before seeking a loan. The scheme is designed to help those who can save and those who can get a

---

(1) H.M.S.O. (1977) 'Housing Policy: A Consultative Document', Cmnd. 6851, p.50.

(2) ibid p.51.

mortgage. As such it may have little effect on the total number of first-time purchasers, but may well raise the amount first time buyers are willing to spend and thus raise prices. The effects on output are likely to be minimal. The 'demand side policies' in the Green Paper pay insufficient attention to the price effects that result when there is an inelastic supply situation.

It is appropriate at this point to make some further comments on mortgage interest tax relief. Section (ii)(a) of Chapter Four questioned the efficiency of mortgage interest tax relief as a means of raising output. The work of D. Jaffe[1] has previously been quoted in this context. Jaffe has argued that mortgage subsidies may result in an increase in the ratio of mortgage loans to the housing stock without any significant increments to the stock and that the efficiency of mortgage subsidy systems measured by their effects on output is low. West German housing analysts have attempted to measure the cost of subsidies to owner-occupiers in Belgium, Denmark, U.S.A., and West Germany by compiling a comparative index: "The sum of the most important items of expenditure from the public authorities (in the form of direct subsidies and fixed relief) was divided by the total number of dwellings available each year (alternatively by the number of households) and then adjusted by the effect of the differences in population levels in these countries. The division of this amount by the average selling prices of new owner-occupied properties in each of the years concerned (1974,

---

(1) Jaffe, D. (1973), 'The Relationship of Financing to Housing Production in Europe and The United States', in 'Financing of Housing', proceedings of a U.N.E.C.E. seminar in Geneva, August.

1975, or 1976) produces an index of the cost of subsidies which is no longer expressed in terms of national currencies and which may be used for the purpose of making comparisons."(1) The index thus purports to show the average subsidy per dwelling as a proportion of the average price.

Denmark has the highest rating on this index, followed by the U.S.A. and then West Germany and the lowest is Belgium. Much is made of the lower cost of subsidies in Belgium but the much steeper increases in owner-occupation in that country than in West Germany. It is argued that "The most important result to emerge from this comparison is the illustration of the fact that the unlimited debt interest relief ..... represents a disproportionately expensive form of encouraging home ownership".(2)

In relation specifically to the countries covered in this thesis, it is apparent that unlimited mortgage interest tax relief in the Netherlands has been associated with a much lower level of owner-occupation than in Ireland where there is only limited tax relief and a level rather lower than that in France where mortgage interest tax relief has also been limited. The more restricted mortgage interest tax relief in Ireland has, furthermore been associated with a significantly higher level of owner-occupation than in the U.K. with its less restrictive provisions. Generous mortgage interest tax relief does not ensure a high level of owner-occupation. It may encourage demand but the conditions necessary for an increase in owner-occupation are an increase in demand *and* an increase in the supply of dwellings.

---

(1) Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), op.cit., Translation p.16.

(2) ibid., p.15.

Mortgage interest tax relief does, furthermore, provide the largest tax deductions to those with the largest mortgages (subject to any upper limits) and in that sense discriminates in favour of those with large mortgages and high incomes.

## 7.8 An econometric analysis of the factors influencing the rate of growth of owner-occupation.

### (i) The relationship of this section to the previous sections of this chapter.

In this section the determinants of the rate of growth of owner-occupation are analysed. The previous sections of this chapter have argued that incomes per head, house prices, rents, share prices, building costs and the price and availability of credit for house purchase may have some influence on the expansion of owner-occupation.

The relationship between the expansion of incomes and the expansion of owner-occupation was observed to be positive within countries but there was no clear-cut relationship between countries regarding the expansion rates of these two variables and higher relative rates of expansion of incomes are not necessarily associated with higher relative rates of expansion of owner-occupation.

The relationships between house prices, rents and share prices were discussed in section 7.4. Some association between the profitability of building for owner-occupation measured by the relative increases in house prices compared with building costs was observed. Increases in rent levels relative to house prices might shift demand towards owner-

occupation but rent increases might also encourage landlords to maintain a supply of rented accommodation and thus the relative movement might influence the rate of transfer between sectors. The relationship between rents and house prices must be interpreted with caution and in section 7.4 a number of reasons why an increase in house prices relative to rents might *not* shift demand towards rented accommodation and away from owner-occupation were advanced. In particular, the point was made that house prices are not always a good measure of the periodic costs of home ownership. Using share prices as a proxy for the performance of non-housing investments, an examination of the relative movement of house prices and share prices suggested that there is a close relationship between the capital growth performance of housing relative to shares and the expansion of owner-occupation. The investment demand for home-ownership will thus be less strong in those countries where alternative investments are relatively more attractive.

The evidence of section 7.5 gives strong support to the proposition that the cost and availability of credit are important factors influencing the expansion of owner-occupation. The relatively low deposits and cheap long term credit available in Ireland, Denmark, and the U.K., it was suggested, help to explain the higher rates of expansion of home ownership in these countries.

There will now be a detailed examination of the determinants

of the rate of growth of owner-occupation, and, more precisely, the rate of growth of demand for and supply of owner-occupied properties. (Note that we are seeking relationships that hold both over countries and over time). In the earlier sections evidence was examined 'one factor at a time'. With the aid of the data in Table 7.7 and the application of multiple regression analysis we shall now attempt:

(a) to investigate the overall relationship between the postulated explanatory factors detailed above and the growth rate of owner-occupation, and

(b) to estimate a demand and a supply function for owner-occupation based on rates of growth of the relevant explanatory variables. There will thus be an analysis of the determinants of the rate of growth of demand for owner-occupied properties and the determinants of the rate of growth of supply of owner-occupied properties. The measure of the levels of demand and supply from which the growth rates are derived will be the proportion of owner-occupied dwellings in the total housing stock.

(ii) The data

Each of the entries in Table 7.7 is an annual average percentage rate of compound growth of the named variable for the specified country and time period. There are seventeen observations for each of the seven variables. The countries and time periods chosen have been influenced by availability of data but the observations do cover all the

Table 7.7: Observations for the dependent and independent variables

| | Country and Time Period | Observations for each variable | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | q | y | p | r | s | b | d |
| 1 | Ireland 1960-64 | 0.639 | 4.147 | 10.668 | 4.515 | 19.717 | 17.235 | 1 |
| 2 | Ireland 1964-71 | 2.017 | 2.942 | 8.294 | 7.186 | 2.116 | 6.927 | 1 |
| 3 | Ireland 1971-75 | 1.244 | 0.956 | 23.808 | 9.676 | 3.248 | 18.484 | 1 |
| 4 | Denmark 1964-70 | 1.716 | 3.575 | 7.110 | 7.808 | -1.322 | 8.572 | 1 |
| 5 | Denmark 1970-76 | 1.706 | 2.505 | 13.037 | 9.322 | 13.585 | 11.017 | 1 |
| 6 | U.K. 1960-65 | 1.835 | 2.354 | 8.666 | 5.236 | 1.317 | 3.519 | 1 |
| 7 | U.K. 1965-69 | 1.592 | 1.869 | 6.779 | 5.209 | 10.552 | 3.545 | 1 |
| 8 | U.K. 1969-77 | 1.104 | 1.569 | 14.044 | 11.970 | 3.384 | 13.594 | 1 |
| 9 | France 1956-62 | 1.957 | 3.852 | 12.246 | 12.246 | 14.319 | 4.720 | 0 |
| 10 | France 1962-69 | 1.014 | 4.674 | 9.520 | 8.950 | -3.092 | 5.228 | 0 |
| 11 | France 1969-72 | 1.120 | 4.690 | 8.288 | 6.301 | 3.812 | 4.884 | 0 |
| 12 | Netherlands 1960-65 | 1.220 | 3.610 | 10.757 | 3.193 | 2.353 | 5.799 | 0 |
| 13 | Netherlands 1965-72 | 1.215 | 2.341 | 1.502 | 7.118 | 5.337 | 7.970 | 0 |
| 14 | Netherlands 1972-77 | 2.074 | 4.159 | 20.499 | 9.010 | -6.531 | 10.285 | 0 |
| 15 | W. Germany 1960-65 | 0.434 | 3.764 | 12.295 | 1.059 | -4.305 | 6.382 | 0 |
| 16 | W. Germany 1965-70 | 0.566 | 3.797 | 4.227 | 6.714 | 4.923 | 5.133 | 0 |
| 17 | W. Germany 1970-75 | 0.550 | 1.362 | 5.793 | 5.853 | -0.593 | 6.857 | 0 |

Notes: d is a dummy variable for the cost and availability of credit. It has a value of '1' where credit is relatively 'easy' and zero where this condition does not hold.

Each of the other variables is the annual average percentage rate of compound growth of

y = per capita income
p = prices of owner-occupied houses
b = building costs
r = rent levels
s = share prices
q = proportion of housing stock in owner-occupied use.

Sources: see text, pp. 378-80.

six countries in the study with an approximately equal distribution over time. There are three observations for each country except Denmark where availability of consistent price and building cost data before 1964 allowed only two observations to be made. The two observations for Denmark do, however, cover a period of twelve years in the 1960s and 1970s which is rather longer than any two observations for any other country. In the case of the other countries one observation is concentrated in the early 1960s, another in the late 1960s, and a third in the 1970s. Despite the fact that lack of data has made the time periods not exactly consistent between countries the observations do give a reasonable distribution over time.

The owner-occupation variable (q) shows the rate of growth of the proportion of the total housing stock in owner-occupied use. The sources of the data for owner-occupation levels, house prices, rent levels, share prices and building costs are as described in earlier sections although additional house price data for France is used.+ The source of the income data used here (to calculate y) is, however, different from that used in section 7.3 where European Currency Units were taken as the appropriate measure for income in order to give a common basis for comparison *between* countries of the *levels* of income at particular points in time. Here we are concerned with a measure of the real growth of incomes *within* given countries over specified time periods. A more appropriate basis for this is the

---

+ From Federal Ministry for Regional Planning, Building and Urban Development, Bonn (1979), op.cit.

'per capita product at constant prices', (real gross domestic product per head) as reported, for example, in the U.N. Yearbook of National Accounts Statistics. The index figures from Volume II of this publication for various years have been recalculated to a common base of 1963=100. From this set of statistics the growth rates for each variable have been calculated by a generalised form of the formula shown in section 7.1 for the growth rate of owner occupation. Thus

$$g = \left( \sqrt[n]{\frac{Q_{to}}{Q_{tn}}} \right) - 1$$

where g = average annual compound growth rate of the variable

$Q_{to}$ = value of observation in base year

$Q_{tn}$ = value of observation at end of period

n = number of years in the given period.

It has not been possible to compile a set of statistics to show variations in the cost and availability of credit over time. However, certain countries have clearly had 'easier' house purchase credit facilities than others. As stated in section 7.5, the low percentage deposits and long term credit arrangements in Denmark, the U.K., and Ireland, contrast with the higher deposits and shorter term credit arrangements in West Germany, the Netherlands, and France. The cost and availability of credit has thus

been represented by a dummy variable made equal to '1' for observations related to those countries acknowledged to have low deposits and long term credit facilities and given a value of zero for those observations related to countries without these facilities. Although the dummy variable allows for differences between two groups of countries it implicitly makes the 'cost and availability' effect constant (a) over certain countries, (b) over different time periods and (c) constant in the sense that the 'secular' growth of owner-occupation over time (captured by the constant term) is raised or lowered by a constant percentage amount per year (equal to the estimated size of the coefficient for 'd' in the countries in which it applies).

(iii) Single Equation model

As an initial test of the relationships between the postulated explanatory variables and the rate of growth of owner-occupation a single equation model will be subjected to multiple regression analysis using the method of ordinary least squares (OLS). This will give some indication as to whether the selected variables can together offer a useful explanation thus providing a prelude to the more detailed analysis of the effects of separate variables in the subsequent simultaneous equation approach which will make use of the method of two stage least squares (2SLS). It will, furthermore, be useful to compare the sign and values of the coefficients estimated from OLS with those obtained from 2SLS. OLS results are frequently reported together

with 2SLS results in econometric analysis to give a comparison and to help interpretation of the results.

A broad proposition consistent with the arguments advanced in earlier sections of this chapter and summarised in section 7.8(i) is that

$$q = f\ (y,\ p,\ b,\ r,\ s,\ d)$$

In linear terms we can formally advance the proposition that

$$q_t = B_0 + B_1 y_t + B_2 p_t + B_3 p_t + B_4 r_t + B_5 s_t + B_6 d_t + u_t^{*} \quad \ldots(1)$$

where d is a dummy variable for the cost and availability of credit and each of the other variables in the annual average percentage rate of compound growth over each time period, in a given country of:-

y = per capita product

p = prices of owner-occupied dwellings

b = building costs

r = rent levels

s = share prices

q = proportion of housing stock in owner occupied use

$u_t$ = disturbance term.

An ordinary least squares (OLS) regression yields equation (1) in Table 7.8

The $F$ value (to test for the sifnificance of $R^2$) is

---

* It is thus assumed that we have a model with the properties of the classical linear regression model and, given that each of the variables is a rate of growth, the coefficients may be interpreted as elasticities of constant value: see pp. 399-400.

TABLE 7.8: Single Equation Model : Regression Results OLS

| | Independent Variables | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $B_o$ | y | p | b | r | s | d | $R^2$ | $\bar{R}^2$ | F |
| (1) Estimated Coefficient | 0.486792 | 0.695741 | 0.432522 | -0.903867 | 0.830307 | -0.620242 | 0.626716 | 0.6024 | 0.3638 | 2.52475+ |
| (1) *t* statistic | 0.929460 | 0.64049 | 1.56130+ | -2.55920* | 2.04820* | -0.341649 | 2.30995* | | | |
| (2) Estimated Coefficient | 0.904125 | -0.356931 | 0.454679 | -0.717918 | 0.793762 | 0.123573 | | 0.3902 | 0.1130 | 1.40766 |
| (2) *t* statistic | 1.55776+ | -0.309807 | 1.39087+ | -1.76808+ | 1.65958+ | 0.603554 | | | | |
| (3) Estimated Coefficient | 0.486986 | 0.695070 | 0.43288 | -0.904234 | 0.83005 | | 0.626442 | 0.6024 | 0.4216 | 3.3266* |
| (3) *t* statistic | 0.980973 | 0.688489 | 1.77001+ | -2.81918* | 2.18396* | | 2.53537* | | | |
| (4) Estimated Coefficient | 0.757914 | | 0.44488 | -0.927035 | 0.802739 | | 0.559578 | 0.5852 | 0.4470 | 4.23285* |
| (4) *t* statistic | 2.56106* | | 1.86310* | -2.97165* | 2.17182* | | 2.51881* | | | |
| (5) Estimated Coefficient | 0.863304 | | | -0.601669 | 0.963652 | | 0.507939 | 0.4652 | 0.3418 | 3.77010* |
| (5) *t* statistic | 2.72431* | | | -2.13360* | 2.45796* | | 2.11233* | | | |

+ significant at $\alpha = 0.10$
* significant at $\alpha = 0.05$

significant at the 0.10 confidence level ($\alpha = 0.10$) as are the $t$ values for four of the coefficients. Three of the coefficients have significant $t$ values at the 0.05 confidence level ($\alpha = 0.05$). The value and significance of $R^2$ falls when the dummy variable, $d$, is omitted.

The proposition that

$$q_t = B_0 + B_1 y_t + B_2 p_t + B_3 b_t + B_4 r_t + B_5 s_t + u_t \quad \ldots\ldots\ldots\ldots (2)$$

gives equation $(\bar{2})$ in Table 7.8.

The fall in $R^2$ and the $F$ value together with the significantly high $t$ statistic for d in $(\bar{1})$ suggests that d is an important factor in the 'explanation' of q.

An AOV (Analysis of Variance) test was applied to examine whether the incremental contribution of d was significant. The problem is 'does the addition of d to the model increase the estimated sum of the squares (ESS), and thus $R^2$, significantly in relation to the regression sum of the squares (RSS)?' The incremental value was computed from the formula

$$F = \frac{\text{ESS due to additional variable/df}}{\text{RSS of equation with additional variable/df}}$$

where df = degrees of freedom.(1)

With the data from $(\bar{1})$ and $(\bar{2})$ where the RSS values were 1.87333 and 2.87292 respectively, $F = 5.34$. This is significant at $\alpha = 0.05$. Thus the addition of d does significantly increase ESS and $R^2$. (The inclusion of d is seen as adding

(1) Following the procedure recommended by, for example, Gujarati, D. (1978), 'Basic Econometrics', Tokyo, McGraw-Hill Kogakusha, pp. 132-135.

about 0.6 per cent per annum to the 'explanation' of the growth of q in Ireland, the U.K., and Denmark, i.e. about 40 per cent of the average annual growth of 1.5 per cent experienced in these countries). There are other reasons for 'preferring' ($\bar{1}$) to ($\bar{2}$): the coefficient for y in ($\bar{2}$) has an unexpected negative sign and there are no significant $t$ values in ($\bar{2}$) at $\alpha = 0.05$.

Share prices are being used as a proxy variable for the performance of non-housing investments. It has not been possible to measure directly the importance of the investment demand for housing. If share prices are a poor proxy or the investment demand for housing is small there is a case for excluding s from the explanation. The omission of s suggests the following model:

$$q_t = B_0 + B_1 y_t + B_2 p_t + B_3 b_t + B_4 r_t + B_5 d_t + u_t \quad \ldots\ldots\ldots (3)$$

As equation ($\bar{3}$) in Table 7.8 shows, the omission of s increases $\bar{R}^2$, compared with ($\bar{1}$). The $F$ statistic and three $t$ values are all significant at $\alpha = 0.05$ and the $t$ value for p is significant at $\alpha = 0.10$. Comparing ($\bar{3}$) with ($\bar{1}$) the inclusion of s has no effect on $R^2$ and an AOV test is inconclusive. We are thus left in some doubt as to the importance of s as a determinant of q.

Doubts about the importance of incomes as an explanatory variable were raised in section 7.3. The omission of y as well as s produces the formulation:

$$q_t = B_0 + B_1 p_t + B_2 b_t + B_3 r_t + B_4 r_t + u_t \quad \ldots\ldots\ldots\ldots\ldots (4)$$

The omission of y increases $\bar{R}^2$ and the $F$ values of $(\bar{4})$ compared with $(\bar{3})$ in Table 7.8, and all five $t$ statistics are significant at $\alpha = 0.05$. Comparing $(\bar{4})$ with $(\bar{3})$ the inclusion of y does not significantly increase the value of $R^2$ and the ESS according to an AOV test which was applied as set out above.

A question that can be raised in relation to equations (1) to (4) is 'Can p realistically be considered as an independent variable - may not p itself be partly a function of q?' This problem of a two-way relationship between p and q is tackled below using a simultaneous equation approach but it may be illuminating to consider the effect of omitting p as an explanatory variable.

The model might thus take the form:

$$q_t = B_0 + B_1 b_t + B_2 r_t + B_3 d_t + u_t \qquad \ldots\ldots\ldots\ldots (5)$$

Increasing r would, ceteris paribus, tend to shift demand towards owner-occupation. This would tend to lead to an increase in house prices and consequently an increased commitment of resources to owner-occupation; r is thus expected to be positive. This shift in demand and consequent resource shift would be reinforced if there were reductions in the price and increases in the availability of credit. A positive relationship between q and d is thus postulated. Increases in building costs, would, however mitigate against the profitability of committing resources to new building for owner-occupation. A negative value for the b coefficient is thus expected.

The estimated regression equation ($\bar{5}$) is shown in Table 7.8. This regression has an $F$ value which is significant at $\alpha = 0.05$ and all the $t$ values are of the expected sign and of sufficient magnitude to reject the null hypothesis that any of the coefficients is equal to zero at $\alpha = 0.05$.

(iii) Simultaneous Equation Model

The results from the OLS analysis suggest strong statistical associations between some of the postulated explanatory variables and the rate of growth of owner-occupation. The mechanisms by which each explanatory variable has its effects can be rationalised within a demand and supply framework. Increases in rents, it can be assumed will, ceteris paribus, increase the level of demand for owner-occupation as will increased availability of 'cheap' credit. Higher building costs will have no direct effect on demand but by reducing the profitability of building they will reduce supply. A single equation approach does not allow demand and supply determinants to be separated and thus does not permit an explanation of growing owner-occupation within an intellectually satisfactory framework. Empirical results consistent with a set of hypotheses derived from a priori reasoning are clearly more satisfactory than statistical results which simply establish unexplained statistical relationships.

The data in Table 7.7 will now be used to develop a demand and supply model of the rate of growth of owner-occupation. The statistical relationships established from this analysis will be more closely related to economic theory and allow

one to make more definite suggestions about causal relationships. As Kendall and Stuart argue "A statistical relationship, however strong and suggestive, can never establish causal connection: our ideas of causation must come from outside statistics, ultimately from some theory or other".(1)

It is possible to view the growth of any tenure as a consequence of a shift of the demand function for that tenure, a shift of the supply function for that tenure or a combination of both these effects. It can be assumed that y, r, s, and d will influence demand and b will influence supply. p will influence both demand and supply and the equilibrium levels of p and q will be determined by the interaction of the demand and supply of owner-occupied properties.

In this approach the concepts of demand and supply are being applied to the stock of owner-occupied housing, and the price variable is a rate of increase in owner-occupied house prices and q a rate of increase in the proportion of the housing stock in owner-occupied use. All owner-occupied houses are regarded as though they are being continuously traded. Existing houses in the owner-occupied sector are continuously being demanded and supplied. Over a given period it is assumed that there is no excess of either demand or supply, price adjusts to clear the market, and the rate of growth of demand equals the rate of growth of supply. Over the periods indicated in Table 7.7 we thus assume a

---

(1) Kendall, M.G. and Stuart, A. (1961), 'The Advanced Theory of Statistics', New York, Charles Griffin Publishers, volume 2, p.279.

situation of market equilibrium.

Four versions of a demand and supply model will be tested. They differ in the specification of the determinants of demand. The first version assumes that y, p, r, s and d influence demand. Later formulations omit, in turn, s, s and y, and y as explanatory variables.

Version (a)

The demand and supply specifications are:-

$$qD_t = B_0 + B_1 p_t + B_2 y_t + B_3 r_t + B_4 s_t + B_5 d_t + u_{1t} \quad \ldots\ldots\ldots(6)$$

$$qS_t = a_0 + a_1 p_t + a_2 b_t + u_{2t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(7)$$

Given the equilibrium market clearing assumptions stated above each version of the demand and supply model has the further specification that

$$qD_t = qS_t = q_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(8)$$

where, $qD_t$ = annual average percentage rate of compound growth of demand for owner-occupation in period t in a given country.

$qS_t$ = annual average percentage rate of compound growth of supply of owner-occupied properties in period t in a given country.

$q_t$ = observed average percentage rate of compound growth of the owner-occupied sector in period t in a given country.

$u_{1t}$ and $u_{2t}$ are the disturbance terms, and all other variables are as previously defined.

The demand and supply model is a simultaenous equation model in which a dependent explanatory variable, price, is stochastic and likely to be correlated with the disturbance term of the equation in which it appears as an explanatory variable. In this situation the ordinary least squares method cannot be used because the estimators thus obtained are inconsistent, that is they do not converge to their true values no matter how large the sample.

One method of obtaining consistent estimators is offered by the technique of two-stage least squares (2SLS) developed independently by Theil[(1)] and Basman.[(2)] The basic aim of the stochastic technique is to 'purify' the stochastic disturbance terms. The method involves two successive applications of OLS. The first stage of two stage least squares estimates values from the reduced form equations. Reduced form equations show the endogenous variable, price, as function of the exogenous variables and stochastic disturbance term. Since the pre-determined or exogenous variables are assumed to be non-stochastic and hence

---

(1) Theil, H. (1953), 'Repeated Least-Squares Applied to Complete Equation Systems', The Hague, The Central Planning Bureau.

(2) Basman, R.L. (1957), 'A generalised classical method of linear estimation of coefficients in a structural equation', Econometrics, Vol.25, pp.77-83.

independent of the disturbance terms, the ordinary least squares method can be applied to estimate the coefficients of the reduced-form equations. The predetermined variables in the model are all the explanatory variables other than price, i.e. in this first version of the demand and supply model they are y, r, s, d, and b.

Thus, in equations (6) and (7) the endogenous regressor p would be expected to be correlated with the disturbance terms in the model. In the first stage of 2SLS p is regressed against all the predetermined variables in the model and a revised set of p values are generated from this regression. The revised p values ($\hat{p}$) are then used in the second stage in place of p in the structural equations (6) and (7) in order to obtain consistent estimates for each parameter. The results are shown as ($\bar{6}$) and ($\bar{7}$) in Table 7.9.

The simultaneous equation approach raises a problem of identification as well as estimation. The identification problem is whether numerical estimates of the parameters of the structural equation can be obtained from the estimated reduced-form coefficients. With the technique of 2SLS, in general, a particular equation in a model can be identified and consistently estimated if

$$K_2 \geq K_1 \quad \text{where,}$$

$K_2$ = number of predetermined variables in the model excluded from the given equation, and

Table 7.9 Simultaneous Equation Model: Regression Results 2SLS

| | | | Independent Variables | | | | | | | Standard error of equation |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Constant term | y | p | b | r | s | d | |
| I | $(\bar{6})\ q^D$ | Estimated Coefficient | 0.521494 | 0.128957 | -0.727366 | | 0.131634 | -0.28772 | 0.666048 | 0.684727 |
| | | $t$ statistic | 0.625630 | 0.764298 | -1.28177 | | 1.86440* | -0.999201 | 1.52972+ | |
| | $(\bar{7})\ q^S$ | Estimated Coefficient | 1.10408 | | 0.741586 | -0.708708 | | | | 0.538454 |
| | | $t$ statistic | 2.71274* | | 1.08855 | -1.21256 | | | | |
| II | $(\bar{9})\ q^D$ | Estimated Coefficient | 0.640225 | 0.104385 | -0.792604 | | 0.128530 | | 0.518298 | 0.715862 |
| | | $t$ statistic | 0.723698 | 0.599147 | -1.27143 | | 1.76243+ | | 1.26383 | |
| | $(\bar{10})\ q^S$ | Estimated Coefficient | 0.855440 | | 0.131191 | -0.112959 | | | | 0.650098 |
| | | $t$ statistic | 1.23386 | | 0.943076 | -1.03838 | | | | |
| III | $(\bar{12})\ q^D$ | Estimated Coefficient | 1.05819 | | -0.821949 | | 0.126121 | | 0.412448 | 0.709421 |
| | | $t$ statistic | 1.82110* | | -1.32397 | | 1.75289+ | | 1.13910 | |
| | $(\bar{13})\ q^S$ | Estimated Coefficient | 0.900693 | | 0.120811 | -0.105299 | | | | 0.622794 |
| | | $t$ statistic | 1.32289 | | 0.877854 | -0.981785 | | | | |
| | $(\bar{15})\ q^D$ | Estimated Coefficient | 1.03926 | | -0.767646 | | 0.128483 | -0.267888 | 0.526801 | 0.687482 |
| | | $t$ statistic | 1.86271 * | | -1.33170 | | 1.82525 * | -0.435993 | 1.36561 + | |
| | $(\bar{16})\ q^S$ | Estimated Coefficient | 0.954329 | | 0.109985 | -0.925425 | | | | 0.615782 |
| | | $t$ statistic | 2.01107 * | | 1.35967 | -1.34806 | | | | |

+ significant at $\alpha = 0.10$
* significant at $\alpha = 0.05$

$K_1$ = number of endogenous variables appearing as regressions in that equation.(1)

In the structural demand and supply equations in this analysis,

$K_1$ = 1, (it always being only the price variable)

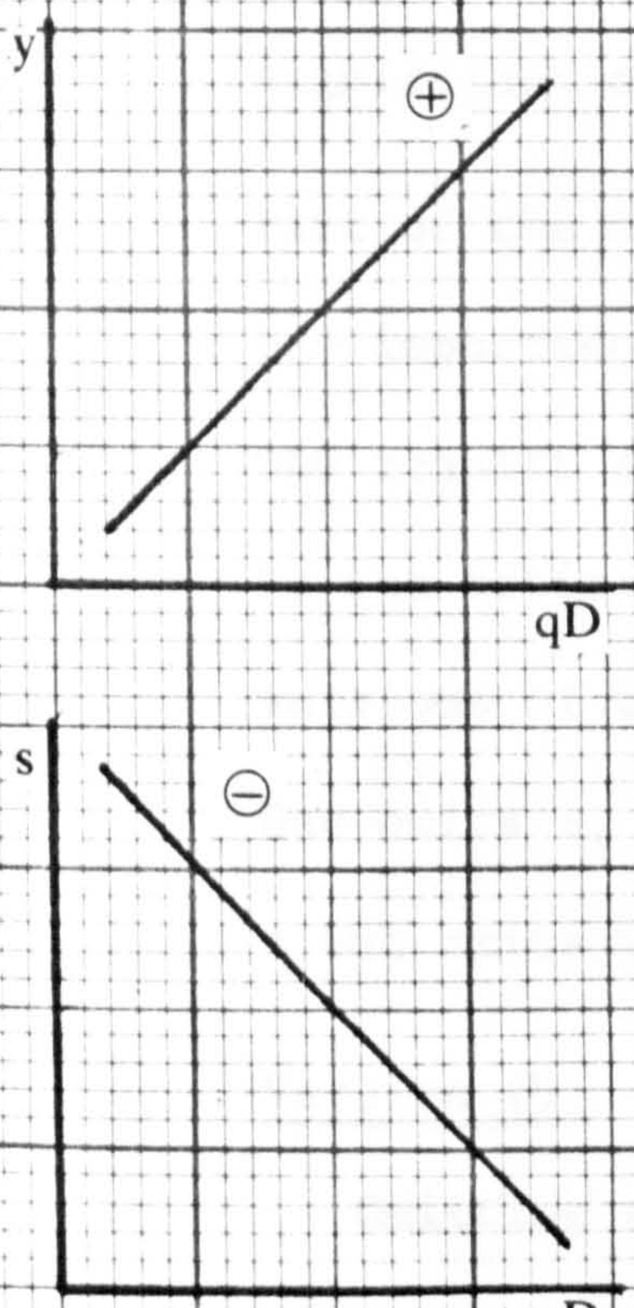
$K_2 \geq 1$, (in the demand equations at least b is always excluded although it appears in the supply equation in the relevant model, and in the supply equations at least r is always excluded although it appears in the demand equation in the relevant model)

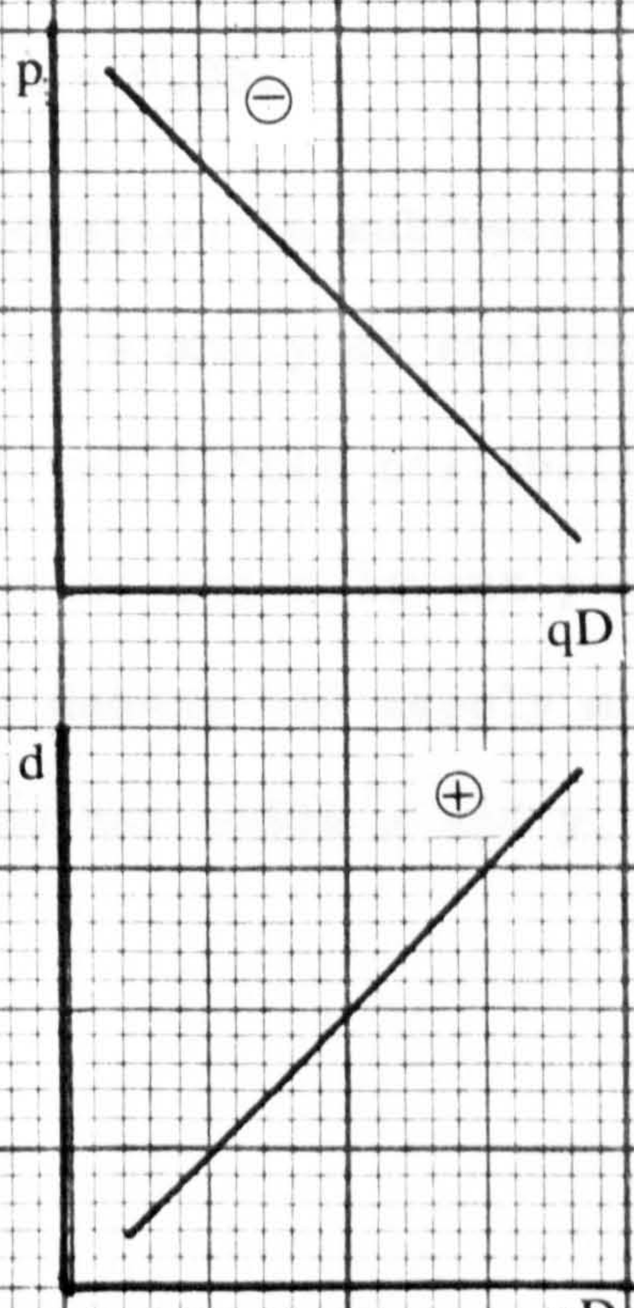
Thus, the identification condition is met throughout this analysis. The expected signs of each coefficient in the demand and supply equations are shown in Figure 7.4. The second stage regression results are shown in Table 7.9. The signs of each of the coefficients in ($\bar{6}$) and ($\bar{7}$) are as expected. Price exhibits a negative sign in the demand equation but is positive in the supply equation. In ($\bar{6}$) s has a negative sign suggesting that, ceteris paribus, the higher the rate of increase in the price of non-housing investments the lower is the demand for owner-occupation. The larger the s value the more attractive are non-housing investment alternatives. This accords with the relationship postulated in section 7.4. The negative sign for the building cost parameter in ($\bar{7}$) confirms the assertion that

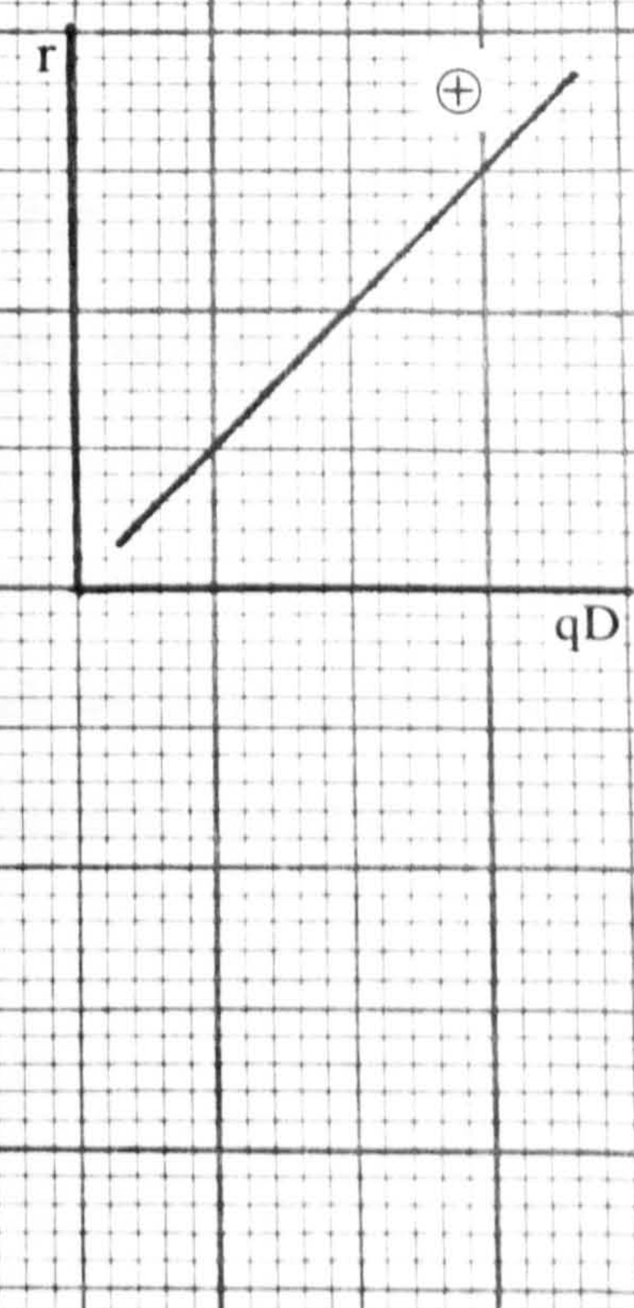
(1) See for example, Kelejian, H.H. and Oates, W.E. (1974), 'Introduction to Econometrics: Principles and Applications', New York, Harper and Row, p.252.

Figure 7.4 Expected Signs of Coefficients in Simultaneous Equations: Summary

*Demand*



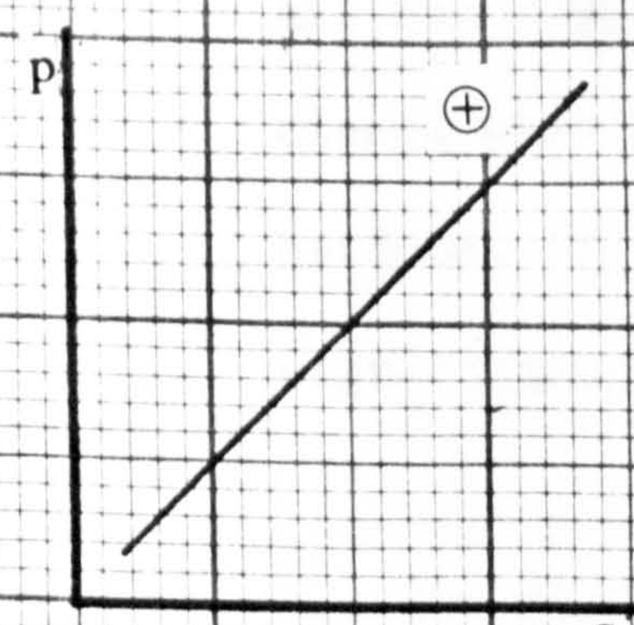



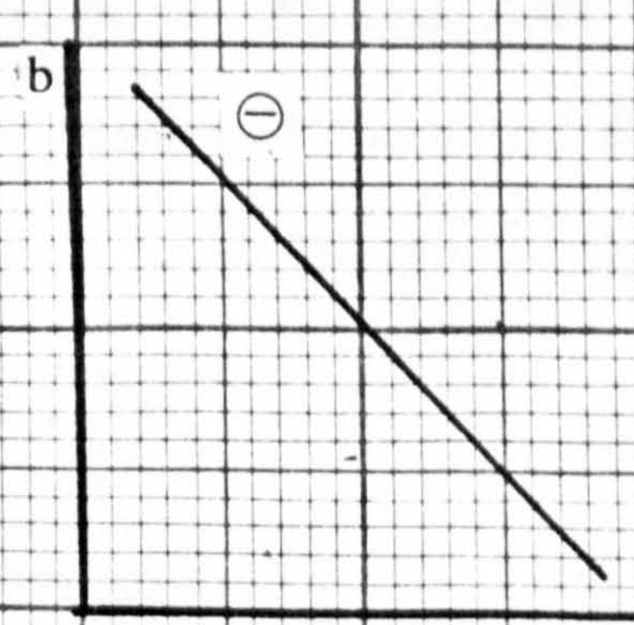







*Supply*



higher building costs, ceteris paribus, reduce the profitability of building for owner-occupation and thus the higher is b the lower is qS. One $t$ value in $(\bar{6})$ is significant at $\alpha = 0.10$ and one $t$ value in $(\bar{7})$ is significant at $\alpha = 0.05$.

Part of the discussion in sub-section 7.8 (ii) questioned the importance of s and y as explanatory variables and the OLS results allowed little reliability to be attached to the estimates of the relevant parameters. Three further versions of the demand and supply model will be presented. One omits s, another omits s and y, while a third includes s but omits y.

Version (b)

Omitting s,

$$qD_t = B_0 + B_1 p_t + B_2 r_t + B_3 y_t + B_4 d_t + u_1 t \quad \ldots\ldots\ldots(9)$$

$$qS_t = a_0 + a_1 p_t + a_2 b_t + u_{2t} \quad \ldots\ldots\ldots(10)$$

$$qD_t = qS_t = q_t \quad \ldots\ldots\ldots(11)$$

The 2SLS estimates by $(\bar{9})$ and $(\overline{10})$ are shown in Table 7.9. All the regressors in $(\bar{9})$ and $(\overline{10})$ possess estimated coefficients with the expected sign and the $t$ value for the estimate of the r coefficient in the demand equation is significant at $\alpha = 0.10$.

Version (c)

Omitting s and y,

$$qD_t = B_0 + B_1 p_t + B_2 r_t + B_3 d_t \quad \ldots\ldots\ldots\ldots(12)$$

$$qS_t = a_0 + a_1 p_t + a_2 b_t \quad \ldots\ldots\ldots\ldots(13)$$

$$qD_t = qS_t = q_t \quad \ldots\ldots\ldots\ldots(14)$$

All the regressors in $(\overline{12})$ and $(\overline{13})$ (See Table 7.9) possess coefficients with the expected sign and the $t$ values for two of the coefficients in $(\overline{12})$ are significant at $\alpha = 0.10$.

Version (d)

Omitting y,

$$qD_t = B_0 + B_1 p_t + B_2 r_t + B_3 s_t + B_4 d_t \quad \ldots\ldots\ldots\ldots(15)$$

$$qS_t = a_0 + a_1 p_t + a_2 b_t \quad \ldots\ldots\ldots\ldots(16)$$

$$qD_t = qS_t = q_t \quad \ldots\ldots\ldots\ldots(17)$$

All the regressors in $(\overline{15})$ and $(\overline{16})$ (see Table 7.9) have coefficients with the expected sign and three of the coefficients in $(\overline{15})$ and one in $(\overline{16})$ are significant at $\alpha = 0.10$.[1]

Table 7.10 summarises the results obtained from the regression analysis in terms of the sign and value of the coefficients

---

(1) The $R^2$ values for the 2SLS regression results have not been reported. This is in accord with the procedure adopted in Kelejian, H.H. and Oates, W.E. (1974), ibid., pp. 253-260. and Theil, H. (1978), 'An Introduction to Econometrics', London, Prentice - Hall International, pp.328-330 and 340-42. As Goldstein, M. and Khan, M.S. (1978), argue (in 'The Supply and Demand for Exports: A Simultaneous Approach';Review of Economics and Statistics (60) pp.275-286) the meaning of $R^2$ "In simultaneous models is at best ambiguous.....This is because it is not bounded (0,1) but $(-\infty,1)$ so that small values are not an indication of poor fit".

Table 7.10: Explanatory Variables: Sign and Value of Coefficients Summary Table.

| Equation Number | Variable | OLS | 2SLS | | Type of 2 SLS equation (Demand or Supply) | $t$ value significant at $\alpha$ = | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimated Coefficient | Expected Sign | Estimated sign and coefficient | | .05 | .1 | .15 | .2 |
| (1) | y | +0.696 | | | | | | | |
| (2) | | -0.357 | | | | | | | |
| (3) | | +0.695 | | | | | | | |
| (6) | | | + | +0.129 | Demand | | | | ✓ |
| (9) | | | + | +0.104 | Demand | | | | |
| (1) | p | +0.433 | | | | | ✓ | | |
| (2) | | +0.455 | | | | | ✓ | | |
| (3) | | +0.433 | | | | | ✓ | | |
| (4) | | +0.445 | | | | ✓ | | | |
| (6) | | | - | -0.727 | Demand | | | ✓ | |
| (9) | | | - | -0.793 | Demand | | | | ✓ |
| (12) | | | - | -0.822 | Demand | | | ✓ | |
| (15) | | | - | -0.768 | Demand | | | | ✓ |
| (7) | | | + | +0.742 | Supply | | | ✓ | |
| (10) | | | + | +0.131 | Supply | | | | ✓ |
| (13) | | | + | +0.121 | Supply | | | ✓ | |
| (16) | | | + | +0.110 | Supply | | | ✓ | |
| (1) | r | +0.830 | | | | ✓ | | | |
| (2) | | +0.794 | | | | | ✓ | | |
| (3) | | +0.830 | | | | ✓ | | | |
| (4) | | +0.803 | | | | ✓ | | | |
| (5) | | +0.964 | | | | ✓ | | | |
| (6) | | | + | +0.132 | Demand | ✓ | | | |
| (9) | | | + | +0.129 | Demand | | ✓ | | |
| (12) | | | + | +0.127 | Demand | | ✓ | | |
| (15) | | | + | +0.128 | Demand | ✓ | | | |
| (1) | s | -0.620 | | | | | | | |
| (2) | | +0.123 | | | | | | | ✓ |
| (6) | | | - | -0.288 | Demand | | | | ✓ |
| (15) | | | - | -0.268 | Demand | | | | |
| (1) | d | +0.627 | | | | ✓ | | | |
| (3) | | +0.627 | | | | ✓ | | | |
| (4) | | +0.560 | | | | ✓ | | | |
| (5) | | +0.508 | | | | ✓ | | | |
| (6) | | | + | +0.666 | | | ✓ | | |
| (9) | | | + | +0.518 | | | | ✓ | |
| (12) | | | + | +0.412 | | | | ✓ | |
| (15) | | | + | +0.527 | | | ✓ | | |
| (1) | b | -0.904 | | | | ✓ | | | |
| (2) | | -0.718 | | | | | ✓ | | |
| (3) | | -0.904 | | | | ✓ | | | |
| (4) | | -0.927 | | | | ✓ | | | |
| (5) | | -0.602 | | | | ✓ | | | |
| (7) | | | - | -0.709 | Supply | ✓ | | | |
| (10) | | | - | -0.113 | Supply | | | | ✓ |
| (13) | | | - | -0.105 | Supply | | | | ✓ |
| (16) | | | - | -0.925 | Supply | | | ✓ | |

of each explanatory variable.

The signs of the OLS and 2SLS results are identical throughout for variables b, r, and d, although the size of the coefficients vary with OLS and 2SLS especially for r. While the coefficients for p are positive using OLS, the 2SLS results indicate negative signs in the demand equations and positive signs in the supply equations. The results for p, in particular, demonstrate the value of 2SLS.

One might have been tempted to conclude from the OLS results that increases in house prices lead to an increased rate of growth of owner-occupation but the 2SLS results show clearly . . that increased house price inflation is likely, ceteris paribus, to reduce the rate of demand increase while tending to increase the rate of growth of quantity supplied. The signs for y are positive in both the 2SLS and OLS results while for s they are negative, with the exception in each case of the results for equation ($\bar{2}$). Reasons for questioning ($\bar{2}$), including the very low $R^2$ and $F$ values have, however, already been advanced.

The sign of *every* coefficient in *every* equation in the 2SLS is as expected. The reliability of the estimates is such that many of them are significant at a confidence level of $\alpha = 0.05$ and nearly all of them are significant if one is prepared to accept a confidence level as low as $\alpha = 0.20$. There is a high degree of consistency regarding the results in Table 7.10. The results provide supporting evidence for the postulates of sections 7.3 to 7.8. Increases in r and d exert positive pressure on demand. While we can be less certain about

the degree of influence that y and s have on demand it is more likely that the effect of an increase in s is negative than positive and that the effect of increasing y is positive.

The effect of increasing income is probably positive but fairly weak. To conclude that the effect of increasing incomes is likely to be an increase in the demand for owner-occupation is not surprising. A negative result would imply that owner-occupied properties were inferior goods and this result would have been at odds with much of the other empirical evidence in the literature.

To suggest that the effect of an increase in incomes is small, especially when compared to other factors, is to advance the proposition that rather less emphasis should be placed on income per head as a determinant of owner-occupation levels than has been suggested by, for example, Carliner,[1] and might be mistakenly concluded from cross-section evidence of the type referred to in section 7.3. Governments expecting considerable increases in owner-occupation growth simply as a consequence of higher rates of G.D.P. growth are likely to be disappointed. If an increase in the rate of growth of incomes produces an increase in the rate of growth of demand the effect on the extent to which the demand expansion is met by (a) quantity and (b) price effects. If the shift in the demand curve is along a fairly inelastic supply curve there will of course be greater relative price than quantity effects. The results from this analysis suggest relative supply inelasticity and

(1) Carliner, G. (1974), op.cit.

thus any factors which shift demand are likely to promote proportionately greater house price inflation than increases in owner-occupation. It might, of course be the case that supply is more elastic in the long run than the shorter run but with the available data it is not possible to verify empirically any such distinction.

The coefficients in Table 7.10 can be viewed as elasticities. The results from 2SLS suggest, for example, an income elasticity value of only about 0.1. The following analysis will show the equivalence between the coefficients in Table 7.10 and elasticities.

Generalising, the estimated demand function is of the form

$$qD_t = a + by_t \qquad (I)$$

where,

$D_t$ = annual average growth rate of demand for owner-occupied dwellings in period t expressed as a percentage of the housing stock at the beginning of period t.

$y_t$ = annual average rate of growth of incomes in period t.

a = constant term,

All explanatory factors other than income are ignored for the sake of simplicity in this example.

The demand function in (I) can, alternatively, be expressed in the form

$$\frac{\frac{dB}{dt}}{D} = a + b\frac{\frac{dY}{dt}}{Y} \qquad (II)$$

where,

D = Demand for owner-occupied dwellings expressed as a percentage of the housing stock at time t.

and,

Y = Income level at time t.

Integrating,

$$\log D = at + b \log Y + K \qquad \text{(III)}$$

where K is a constant.

Taking anti-logs,

$$D = k(1 + g)^{t} Y^{b} \qquad \text{(IV)}$$

where $K = \log k$

and $a = \log (1 + g)$

We note that

$$\frac{dD}{dY} = bY^{b-1} \cdot k(1 + g)^{t} \qquad \text{(V)}$$

$$= \frac{D}{Y} \cdot b \qquad \text{(VI)}$$

$$\therefore \frac{\frac{dD}{D}}{\frac{dY}{Y}} = b \qquad \text{(VII)}$$

$\therefore$ The elasticity of D with respect to Y is $b$, and

$b$ is a measure of the income elasticity of demand.

A similar argument could be applied to all the other coefficients in both the demand and supply equations so that, for example, the coefficients for p can be taken as measures of price-elasticity.

As noted above, the results in Table 7.10 suggest a fairly low income elasticity. Turning to price elasticity, it seems probable that supply is, at least in the short run, more inelastic than is demand. Equations $(\overline{10})$, $(\overline{13})$ and $(\overline{16})$ suggest a 1 per cent increase in price will be associated with little more than 0.1 per cent extension of supply while equations $(\bar{6})$, $(\bar{9})$ and $(\overline{12})$ suggest that a 1 per cent change in price will be associated with a change in demand of approximately 0.7 per cent to 0.8 per cent.

The relative values of the demand and supply elasticities will, as argued elsewhere in this chapter, have significant policy implications. The 2SLS regression results tend to confirm the importance of the cost and availability of credit as a factor influencing demand and the estimates of this coefficient are fairly constant at around 0.5 (i.e. adding about ½ per cent p.a. to the growth of the demand for owner-occupation in the countries to which the factor relates). Some governments have attached much importance to influencing the mortgage situation as a way of promoting home ownership. As noted in section 7.7, the U.K. Housing Policy 'Green Paper' (1977) assumed that the cost and the supply of mortgages was of paramount importance in influencing the growth of home ownership.(1) By concentrating policy efforts on these issues which influence demand directly and supply only indirectly governments tend to produce increases in house prices and only relatively small increases in the proportion of owner-occupied property in the housing stock. This conclusion is supported by the evidence of the supply inelasticity noted above.

(1) H.M.S.O. (1977), op. cit., pp.50-51.

The estimates for the r coefficient are all significant at $\alpha = 0.10$. The estimates are about 0.8 in the OLS results and about 0.13 in the 2SLS results. The difference in values between the OLS and 2SLS results is another illustration of the importance of interpreting results within a consistent economic framework. The OLS results might misleadingly be taken to imply a high cross elasticity of demand between renting and owner-occupation, if the influence of r within the single equation model is assumed to be via demand rather than supply. Equations $(\bar{6})$, $(\bar{9})$, $(\overline{12})$ and $(\overline{15})$ suggest that a 1 per cent increase in the growth of rents is likely to lead to an increase of about 0.13 per cent in the rate of growth of demand for owner-occupation. It could be argued that r will influence supply as well as demand and it might be thought that higher rental levels will encourage the supply of rented properties at the expense of the growth of owner-occupation (r ↑, qS ↓). However, to have included r as an item in the supply equation in the 2SLS analysis would have breached the identification condition ($K_2 > K_1$, see pp.390-392) and estimation would not have been possible with the available data and consequent specification.

The direction of the effect of r from time series data is, moreover, unclear. This is because, as noted in Chapter Five, high rent levels have in practice often been accompanied by less restrictive security of tenure provisions for landlords (as part of a 'package' of measures to remove restrictions) and this has caused some landlords to take advantage of their enhanced freedom to sell with vacant possession into the owner-occupied

sector. It can thus appear that higher rental levels are associated with increases in owner-occupation supply (r ↑, qS ↑). In the public sector it has been common for higher rental levels to follow from reductions in 'object' subsidies. The details for specific countries were given in Chapters Four and Five. If higher public sector rents lead to a switching of demand to owner-occupation, governments with a strong commitment to increasing owner-occupation may well be pleased with the results.

The estimates of coefficients for b are consistently negative, suggesting that increases in the rate of increase in building costs reduce the rate of increase in the supply of owner-occupied properties. While seven out of nine estimates suggest a value of between -0.602 and -0.927 for the value of this coefficient there is some inconsistency between the values in the OLS and 2SLS results. This inconsistency and the fact that the analysis is based on a very small number of observations points to a need for much caution in interpreting the values of these and indeed all the coefficients. Given, further, that the observations are taken from pooled cross-section and time series data one cannot suggest with any confidence the precise value at any point in time of any coefficient in any country. This is not, of course, the aim of the analysis. It is, rather, to illustrate in more general terms the direction and relative importance of certain variables in influencing the rate of growth of the owner-occupied sector.

Great care must, furthermore, be taken in comparing the elasticity

values in this analysis with those obtained from other empirical investigations of housing markets. This applies, especially, to the income and price elasticities of demand. There have been many attempts in Europe and the United States at finding values for these elasticities. Some studies concentrate specifically on owner-occupiers but the exact specification of the model varies greatly from study to study.

Much of the evidence is summarised in Mayo (1980).[1] Wilkinson and Gulliver (1973)[2] and De Leeuw (1971).[3] The evidence reveals a great deal of variation in elasticity estimates depending, inter alia, on the data base and the specification of the model. Mayo reports fifteen separate estimates of the income elasticity of demand of owner-occupiers in the United States and seven price elasticity estimates which are based on log-linear demand functions. The income elasticities vary between 0.21 and 0.87 and the price elasticities vary between -0.53 and -0.80. In contrast to the analysis for different countries reported here, all studies are based on cross-section data only, the demand variable is some measure of housing expenditure and there is a great deal of variation in the income measure. There are attempts at measuring 'permanent' as well as 'current' income.

---

(1) Mayo, S.K. (1981), 'Theory and Estimate in the Economics of Housing Demand', Journal of Urban Economics, 10, pp.95-116.

(2) Wilkinson, R.K., and Gulliver, S. (1973), 'The Economics of Housing; a survey' in Cooper, M.H. (1973) ed. 'Survey of Recent Developments in Social Policy and Administration', London, Heineman.

(3) De Leeuw, F. (1971), 'The Demand for Housing: a review of the cross section evidence', Review of Economics and Statistics, Volume 53, Number 1, pp.1-10.

Wilkinson (1973)[1] concludes a paper on 'The Income Elasticity of Demand for Housing' with the comment that "it is important to be precise and consistent in the specification of the demand function and in the measurement of variables. Various measures of elasticity are possible and some will be more appropriate for a given purpose than others: the question of the selection of an appropriate measure will be resolved partly by the availability of data and partly by the purpose in hand". This is a reflection appropriate to the interpretation of the results in Table 7.10 and the comparison of these results with those of other investigations.

## 7.9 Conclusions

Owner-occupation has increased in the post-war period in each of the countries in this study but the rates of increase and the current proportions of the housing stock in owner-occupied use vary considerably from country to country.

The level of owner-occupation and the rates of growth can be explained by the demand for owner-occupied properties and the supply of such properties compared with dwellings in other tenures. While there are associations within countries between increased income levels and increasing owner-occupation, differences in national income per head are not systematically correlated with differing levels of owner-occupation. Increases in house prices compared with retail prices and the value of alternative investments can encourage owner-occupation demand and differences in the investment demand for housing can help

---

(1) Wilkinson, R.K.(1973), 'The Income Elasticity of Demand for Housing', Oxford Economic Papers, Volume 25, Number 3.

explain differences in owner-occupation levels between countries. Increases in rents have shifted demand towards owner-occupation. Such a change in relative prices can be reinforced by cheaper credit for house purchase which will reduce the periodic costs of home ownership compared with renting. Differences in the cost and availability of credit have a significant effect on the demand for owner-occupier property. The countries with the highest levels of owner-occupation have the easiest credit facilities. The contract system of housing finance, requiring long periods of saving,may impede the growth of demand for owner-occupation.

The relationship between house prices and building costs has a significant effect on the amount of building for owner-occupied use. Increased profits from construction increase the size of the owner-occupied sector. Reduced subsidies for non-profit or public sector rented housing have lowered the proportion of new completions in this sector and consequently increased the proportion of completions for owner-occupation. This will have a long term positive effect, if continued, on the level of home ownership in each country.

Transfers from the rented stock have important influences on the supply of dwellings for owner-occupation in Ireland, Denmark, and the U.K.: the countries with the highest levels of owner-occupation. The supply of newly built dwellings for owner-occupation in the U.K. has fallen in absolute terms in recent years. This is not so in the other countries.

The comparatively small number of first-time buyers who purchase new houses and the high rate of turnover in the existing stock

limit the effectiveness of demand subsidies in raising output and owner-occupation in the U.K. General demand subsidies such as mortgage interest tax relief, without demand subsidies to encourage additional marginal purchasers in specific target groups will, in a situation where the supply of new dwellings is relatively inelastic, have only a small effect on output and on the level of owner-occupation. The lack of government incentives to new building in the U.K. is likely to impede the rate of growth of owner-occupation unless the rate of transfers from the public sector increases dramatically or substantial increases in demand, from,for example,rent increases or further credit subsidies, raise prices to levels which give further profit incentives.

The regression results confirm the assertion that differences in the rates of growth of owner-occupation are significantly associated with differences in the rates of growth of rent levels, the cost and availability of credit and building costs. Increases in rent levels and easier credit for house purchase tend to increase the demand for owner-occupied properties. These forces making for increased demand may be reinforced by increases in incomes and reductions in the performance of non-housing investment alternatives. The demand increase will tend, ceteris paribus, to push up prices and thus profits from new building and possibly give an incentive to transfers of properties from the private-rented sector. The supply response will be impeded by factors which limit the elasticity of supply both of new buildings and transfers from other tenures.

The regression models considered do not take account of all the

explanatory variables raised in discussion in sections 7.3 to 7.7. There is no explicit consideration, for example, of subsidies to builders or sales of non-profit and state rented housing which may boost owner-occupier supply. The inclusion of measures for such factors might well improve the reliability of an estimated supply equation. Useful data on these variables and on such factors as changing attitudes to owner-occupation or changes in the quality of the good are not, of course, to hand and any attempt to allow for such considerations would complicate the analysis considerably. Despite these limitations, the 2SLS results are consistent with a framework of market forces. They suggest that, notwithstanding international barriers with varying institutional and legal arrangements, the forces of demand and supply are at work influencing the rates of growth of owner-occupation in the different countries. These forces are modified, however, by varying methods and in varying degrees, by differing types and amounts of government activity.

## 7.10 Statistical Appendix

Table 7.11: Household Income and Owner-Occupation; West Germany, 1972.

| Household Income DM per month | % of households in given income group which are owner - occupiers |
|---|---|
| - 600 | 23 |
| 600 - 800 | 25 |
| 800 - 1000 | 28 |
| 1000 - 1200 | 34 |
| 1200 - 1500 | 36 |
| 1500 - 1800 | 37 |
| 1800 - 2500 | 41 |
| 2500 + | 53 |

Source: Federal Ministry for Regional Planning, Building and Urban Development (1979). Wohneigentumsquote Report.

Table 7.12: Household Income and Owner Occupation; Denmark, 1975

| Household Income, Kroner per annum | %of households in given income group which are owner - occupiers |
|---|---|
| - 20,000 | 26 |
| 20,000 - 39,999 | 32 |
| 40,000 - 59,999 | 44 |
| 60,000 - 79,999 | 52 |
| 80,000 - 99,999 | 57 |
| 100,000 - 149,999 | 70 |
| 150,000 + | 79 |

Source: Federal Ministry for Regional Planning, Building and Urban Development (1979). Wohneigentumsquote Report.

Table 7.13: Household Income and Tenure; Netherlands, 1975

| Household Income | Distribution of Households in each tenure over given income ranges | | |
|---|---|---|---|
| Thousands of Guilders per annum | Owner-Occupier | Non-Profit Rented | Private Rented |
| - 12 | 6 | 11 | 12 |
| 12 - 18 | 16 | 22 | 23 |
| 18 - 24 | 21 | 28 | 26 |
| 24 - 30 | 18 | 23 | 17 |
| 30 - 38 | 15 | 10 | 12 |
| 38 + | 24 | 7 | 10 |
| | 100 | 100 | 100 |

Source: Centre for Environmental Studies (1978) (Unpublished Report) 'Private rented housing in the Netherlands'

Table 7.14: Household income and tenure: Ireland, 1973

| Household Income Gross Weekly Income (£s) | % of households in each tenure group in given income range | | | |
|---|---|---|---|---|
| | Owned outright | Owned with mortgage | Rented Local Authority | Private Rented |
| Less than £10 | 13 | 4.4 | 11.4 | 12.6 |
| £10 and less than £20 | 18 | 7.7 | 15.3 | 15.0 |
| £20 and less than £30 | 18 | 10.9 | 22.7 | 21.7 |
| £30 and less than £40 | 14.2 | 18.8 | 17.6 | 18.4 |
| £40 and less than £50 | 10.4 | 18.6 | 12.4 | 10.6 |
| £50 and less than £60 | 7.7 | 12.7 | 8.6 | 6.8 |
| £60 and less than £70 | 5.1 | 8.3 | 4.0 | 5.1 |
| £70 and less than £80 | 4.2 | 5.9 | 4.0 | 3.8 |
| £80 and over | 9.4 | 12.7 | 4.1 | 6.1 |
| | 100.0 | 100.0 | 100.0 | 100.0 |

Source: National Economic and Social Council, Dublin (1976) Report on Housing Subsidies, Table D4 p.95.

Table 7.15: Household Income and Tenure: England and Wales, 1975

| Annual Income | %of households in each tenure group in given income range | | | | | |
|---|---|---|---|---|---|---|
| | Owner - Occupiers | | Local Authority and New Town Tenants | | Rented Unfurnished from Private Landlords | |
| | EA | EI | EA | EI | EA | EI |
| - £1,000 | 1.5 | 34.5 | 1.8 | 48.9 | 4.2 | 56.8 |
| £1,000 - | 2.5 | 27.6 | 5.4 | 38.4 | 10.2 | 25.6 |
| £1,500 - | 3.7 | 17.1 | 8.9 | 9.0 | 10.0 | 11.6 |
| £2,000 - | 7.0 | 4.2 | 12.5 | 1.6 | 11.5 | 2.5 |
| £2,500 - | 9.5 | 5.8 | 18.1 | 1.6 | 14.2 | 2.1 |
| £3,000 - | 25.7 | 4.9 | 28.6 | 0.5 | 23.4 | 1.3 |
| £4,000 - | 21.2 | 2.5 | 19.2 | | 16.5 | |
| £5,000 - | 12.6 | 1.2 | 6.8 | | 6.6 | |
| £6,000 + | 16.3 | 2.1 | 2.6 | | 3.4 | |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Notes (i) EA = Economically active
(ii) EI = Economically inactive
(iii) The high proportion of 'economically inactive persons on low incomes who are owner - occupiers is influenced by retired persons who own outright.

Source: H.M.S.O. (1977), Housing Policy Technical Volume, Part I, Table 11.31.

Table 7.16: Mean and Median Income by tenure; England and Wales, 1975.

| Tenure | Household Income Mean | Household Income Median |
|---|---|---|
| | £ per annum | |
| Owner-Occupiers | | |
| Economically Active Head | 4,851 | 4,350 |
| Economically Inactive Head | 2,129 | 1,480 |
| Local Authority & New Town Tenants | | |
| Economically Active Head | 4,017 | 3,715 |
| Economically Inactive Head | 1,585 | 1,137 |
| Rented Unfurnished from Private Landlords | | |
| Economically Active Head | 3,581 | 3,335 |
| Economically Inactive Head | 1,531 | 1,112 |

Source: H.M.S.O. (1977) Housing Policy Technical Volume Table II.30
Housing Policy Technical Volume Part 1

Table 7.17: House Prices compared with Building Costs and Rents

Index Numbers, 1965 = 100

| | House Prices | Building Costs | Rents | Building Costs | Building Costs ÷ Rents | House Prices ÷ Rents |
|---|---|---|---|---|---|---|
| UK | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 139 | 122 | 132 | 114 | 108 | 105 |
| 1975 | 324 | 254 | 235 | 128 | 92 | 138 |
| West Germany | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 123 | 128 | 146 | 96 | 114 | 84 |
| 1975 | 163 | 179 | 183 | 91 | 102 | 89 |
| Denmark | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 154 | 148 | 154 | 104 | 104 | 100 |
| 1975 | 297 | 150 | 232 | 198 | 155 | 128 |
| Ireland | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 133 | 139 | 146 | 96 | 105 | 127 |
| 1975 | 278 | 303 | 231 | 92 | 76 | 120 |
| Netherlands | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 105 | 139 | 136 | 76 | 98 | 77 |
| 1975 | 190 | 234 | 207 | 81 | 88 | 92 |

Source: Figure 7.3 and U.N. Annual Bulletins of Housing and Building Statistics for Europe.

Table 7.18: House Prices Compared with Share Prices and Retail Prices

Index Numbers 1965 = 100

| | House Prices | Share Prices | Retail Prices | House Prices ÷ Share Prices | House Prices ÷ Retail Prices | Share Prices ÷ Retail Prices |
|---|---|---|---|---|---|---|
| **UK** | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 139 | 134 | 124 | 104 | 112 | 108 |
| 1975 | 324 | 129 | 230 | 251 | 140 | 56 |
| **W. Germany** | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 123 | 118 | 110 | 104 | 112 | 107 |
| 1975 | 163 | 114 | 150 | 143 | 109 | 76 |
| **Ireland** | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 133 | 123 | 128 | 108 | 104 | 96 |
| 1975 | 278 | 135 | 241 | 206 | 115 | 56 |
| **Denmark** | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 154 | 92 | 135 | 167 | 114 | 68 |
| 1975 | 297 | 153 | 207 | 194 | 143 | 74 |
| **Netherlands** | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1970 | 105 | 124 | 125 | 85 | 84 | 99 |
| 1975 | 190 | 120 | 189 | 158 | 101 | 63 |

Sources: See figure 7.3, U.N. Annual Bulletins of Housing and Building Statistics for Europe, and O.E.C.D. Economic Indicators.

Table 7.19: House Prices, Share Prices, and Retail Prices; Index Numbers 1965 = 100, Based on annual data. U.K., Netherlands, Denmark.

| | 1 | 2 | 3 (1 divided by 2) | 4 | 5 (1 divided by 4) | 6 (2 divided by 4) |
|---|---|---|---|---|---|---|
| | House Prices | Share Prices | House Prices divided by Share Prices | Retail Prices | House Prices divided by Retail Prices | Share Prices divided by Retail Prices |
| U.K. | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1966 | 108 | 101 | 107 | 104 | 104 | 97 |
| 1967 | 114 | 108 | 106 | 106 | 108 | 102 |
| 1968 | 124 | 153 | 81 | 110 | 113 | 139 |
| 1969 | 130 | 151 | 86 | 116 | 112 | 130 |
| 1970 | 139 | 134 | 104 | 124 | 112 | 108 |
| 1971 | 164 | 158 | 104 | 135 | 121 | 117 |
| 1972 | 225 | 201 | 112 | 145 | 155 | 138 |
| 1973 | 297 | 174 | 170 | 157 | 189 | 111 |
| 1974 | 302 | 102 | 296 | 183 | 165 | 56 |
| 1975 | 324 | 129 | 251 | 230 | 140 | 56 |
| Netherlands | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1966 | 100 | 85 | 118 | 105 | 95 | 81 |
| 1967 | 103 | 95 | 108 | 109 | 95 | 81 |
| 1968 | 106 | 110 | 96 | 112 | 95 | 98 |
| 1969 | 103 | 122 | 84 | 120 | 86 | 102 |
| 1970 | 105 | 124 | 85 | 125 | 84 | 99 |
| 1971 | 111 | 118 | 94 | 134 | 83 | 88 |
| 1972 | 119 | 142 | 84 | 145 | 82 | 98 |
| 1973 | 136 | 157 | 87 | 157 | 87 | 100 |
| 1976 | 217 | 114 | 190 | 205 | 106 | 56 |
| Denmark | | | | | | |
| 1965 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1966 | 128 | 105 | 122 | 107 | 120 | 98 |
| 1967 | 133 | 90 | 147 | 114 | 117 | 79 |
| 1968 | 141 | 92 | 153 | 123 | 115 | 75 |
| 1969 | 144 | 102 | 141 | 127 | 114 | 80 |
| 1970 | 154 | 92 | 167 | 135 | 114 | 68 |
| 1971 | 172 | 87 | 197 | 142 | 121 | 61 |
| 1972 | 200 | 123 | 167 | 151 | 132 | 81 |
| 1973 | 235 | 188 | 125 | 166 | 142 | 113 |
| 1974 | 240 | 140 | 171 | 193 | 124 | 73 |
| 1975 | 297 | 153 | 194 | 207 | 143 | 74 |

Note: The higher this index the greater is the extent to which house prices 'out-performed' share prices.

Source: See Figure 7.3, U.N. Annual Bulletins of Housing and Building Statistics for Europe, and O.E.C.D. 'Economic Indicators'.

Table 7.20: Changing Ingredients of Wealth, U.K.

| | % of Total Wealth held in given form | | |
|---|---|---|---|
| | 1960 | 1970 | 1976 |
| Homes | 19 | 27 | 37 |
| Land | 2 | 3 | 3 |
| Other Physical Assets | 7 | 7 | - 7 |
| Company Shares | 21 | 17 | 10 |
| Life Assurance Policies | 11 | 15 | 14 |
| Building Society Deposits | 5 | 6 | 8 |
| Other Financial Assets | 35 | 25 | 21 |

These figures make no allowance for mortgages and other debts.

Source: 'An A to Z of Income and Wealth', Table T, H.M.S.O. (1980), Royal Commision on the Distribution of Income and Wealth.

---

Table 7.21: Construction for Owner - Occupation

(a) France

| Year | Housing Starts | Owner - Occupied Housing as % of starts |
|---|---|---|
| 1975 | 516,000 | 49 |
| 1976 | 492,300 | 51 |
| 1977 | 475,000 | 58 |
| 1978 | 438,000 | 64 |

(b) The Netherlands

| Year | Completions | Owner - Occupied Dwellings as % of completions |
|---|---|---|
| 1965 | 115,027 | 33 |
| 1970 | 117,284 | 37 |
| 1975 | 118,159 | 49 |
| 1976 | 116,151 | 49 |
| 1977 | 106,938 | 54 |

(c) Denmark

| Year | Completions | Owner - Occupied Dwellings as % of completions |
|---|---|---|
| 1970 | 50,582 | 58 |
| 1972 | 50,006 | 66 |
| 1974 | 48,595 | 71 |
| 1975 | 35,510 | 72 |
| 1976 | 39,218 | 76 |
| 1977 | 36,272 | 84 |

continued/ ...

Table 7.21 continued.

(d) Great Britain

| Year | Completions (000s) | % of Completions in the Private Sector* |
|---|---|---|
| 1970 | 350.4 | 49 |
| 1973 | 294.1 | 64 |
| 1974 | 269.5 | 52 |
| 1975 | 313.0 | 48 |
| 1976 | 315.2 | 48 |
| 1977 | 303.3 | 46 |
| 1978 | 279.8 | 53 |
| 1979 | 236.2 | 57 |

(e) Ireland

| Year | Completions | Non Local Authority Dwellings as % of completions* |
|---|---|---|
| 1970 | 13,887 | 73 |
| 1972 | 21,572 | 73 |
| 1974 | 26,256 | 74 |
| 1975 | 26,892 | 67 |
| 1976 | 24,000 | 69 |
| 1977 | 24,548 | 74 |

* Almost all for owner - occupation.

Sources: France : Building Societies Association (1981), B S A Bulletin No. 25, January.

Netherlands : Building Societies Association (1979), Netherlands Research Group Report, No. 2, Appendices.

Denmark : Boligpolitisk Lommenstatistick, 1973 and 1978.

Great Britain : Building Societies Association, (1979 and 1981), B S A Bulletins Nos. 20, October 1979, and 25, January 1981.

Ireland : Department of the Environment, Dublin, (1978), 'Current Trends and Policies in the Field of Housing, Building and Planning'.

## Table 7.22: Housing Finance and New Housing

(a) UK (Advances from building societies)

| Year | Value of Advances (£ m.) | % for New Dwellings |
|---|---|---|
| 1974 | 2,950 | 23.7 |
| 1975 | 4,965 | 19.0 |
| 1976 | 6,117 | 18.4 |
| 1977 | 6,889 | 17.0 |
| 1978 | 8,734 | 17.2 |
| 1979 | 9,103 | 16.6 |

(b) Denmark

| Year | Value of Advances (DKr. m.) | % for New Dwellings |
|---|---|---|
| 1976 | 23,082 | 57.2 |
| 1977 | 21,982 | 64.5 |
| 1978 | 22,982 | 62.1 |

(c) Ireland

| Year | Value of Advances (£ 000's.) | % for New Dwellings |
|---|---|---|
| 1974 | 88,735 | 77.0 |
| 1975 | 116,238 | 62.4 |
| 1976 | 146,201 | 55.5 |

Sources: UK : Building Societies Association (1981), B S A Bulletin No. 25, January.

Denmark: Building Societies Association (1980), B S A Bulletin No. 21, January.

Ireland: Department of Local Government, Dublin (1977), Quarterly Bulletin of Housing Statistics, June.

# CHAPTER EIGHT

# CONCLUSIONS

Contents


| | | Page |
|---|---|---|
| 8.1 | Policy Goals | 418 |
| 8.2 | Perceptions, Instruments and Investment | 420 |
| 8.3 | Rental housing | 425 |
| 8.4 | Housing allowances | 428 |
| 8.5 | Owner-occupation | 431 |
| 8.6 | Reforms in U.K. housing policy | 432 |

# 8. CONCLUSIONS

This chapter summarises the major findings of the study and stresses the relevance of this comparative analysis to conclusions about housing policy in the United Kingdom. It makes a number of general points drawing on the analyses of earlier chapters which, in more detail, set out the specific results of the separate sections of this work.

## 8.1 Policy Goals

The housing policy goals of the United Kingdom, West Germany, France, the Netherlands, Denmark and Ireland have been analysed using national government statements. These statements come mainly from the occasional reports on 'Current trends and policies in the Field of Housing, Building and Planning' which are submitted to the United Nations Economic Commission for Europe. This has been supplemented by information from other government publications. This showed that governments rarely acknowledge explicitly the potential conflicts between different housing policy aims and between housing aims and other aims. Most statements are loose and general.

A United Nations report 'Human settlements' (1976)[1] argued that there were, in western Europe, "no universally accepted principles of housing policy and no uniform housing system". While this may be true in terms of the diversity of instruments and institutional arrangements, at a broad level of generalisation the overall objectives of policy are remarkably similar from nation to nation. All the governments have claimed that

---

(1) United Nations Economic Commission for Europe (1976), 'Human Settlements in Europe: Post War Trends and Policies' p.53.

the purpose of housing policy is, fundamentally, to ensure that all families have decent accommodation at a price within their means.

At a more detailed level, certain aims are common to all the countries studied. The following aims have been identified with varying degrees of strength at different points in time in different countries.

(a) The production of 'large numbers' of new houses.

(b) The improvement of the existing stock.

(c) A reduction in specific shortages identified either

  (i) with respect to location, or

  (ii) as experienced by particular social or economic groups.

(d) Promoting the mobility of tenants.

(e) Achieving equity of treatment between different tenure groups.

(f) Encouraging the supply of low-rent 'non-profit' or 'public' housing.

(g) Promoting an increase in the proportion of housing in the owner-occupied sector.

The United Nations 'Human Settlements' publication[1] argued that two types of housing policy were apparent in post-war western Europe. These were 'social' and 'comprehensive policies' (see Chapter Two).

The evidence from the material used here to examine policies

---

(1) ibid., pp. 58-61.

does not however support such a distinction. Rather than facilitating a division of the countries, an examination of the goals of policy reveals much similarity between nations. The position can be summarised by stating that all countries have (a) a supply objective, related to the size and quality of the stock and (b) an equity objective related to the distribution of the stock and the relative prices paid for different parts of the stock.

All the statements of aims and objectives are vague. Terms like 'quality of accommodation' and 'a price within a household's means' are always left ill-defined. The aims are not usually susceptible to quantitative measurement. The statements are slogans rather than serious attempts at producing operational targets. Housing policy is always subject to constraints imposed by other policy objectives. Within housing policy many goals are pursued simultaneously. There is thus scope for conflict between housing policy and other policy goals and for conflicts within housing policy.

## 8.2 Perceptions, Instruments and Investment

Four basic views of housing problems have been identified. It has been shown that housing policy can be viewed as a problem of (a) the relationship between incomes and costs (b) too low a level of production, (c) capital market shortages and high interest rates or (d) an inefficient or inequitable allocation of the housing stock. These alternative views are associated within and between countries with a heterogeneity of instruments

which contrasts with the homogeneity of aims. Evidence relating to these perceptions was presented in Chapter Three.

A classification of policy instruments was presented in Chapter Four. Each country has some form of housing allowance scheme designed to alter the relationship between incomes and costs and influence the allocation of the stock. The schemes in the U.K. and Ireland are much more limited in scope than the West German 'Wohngeld' and the French 'A.P.L.' which apply to all sectors or the Dutch and Danish schemes which provide substantial support for the rented sectors.

Aid for non-profit housing is a major means of encouraging output in West Germany, the Netherlands, Denmark and France. A variety of subsidies are provided to promote production and reduce costs to tenants. Subsidisation of interest costs is a significant method of support in each of these countries but the exact means varies considerably. The Dutch and West Germans, for example, rely more heavily on direct finance from the government than do the Danish. In Denmark a large proportion of non-profit association funds come from the private capital market. In each case, the support is traded in return for agreements about the characteristics of the dwellings or the occupants but the details vary from country to country. These agreements may involve government determination of rent levels, rules about the income of tenants or, as in the Randstad area in the Netherlands, more direct controls on the allocation of dwellings.

The situation is different in the U.K. and Ireland where housing

associations play a much less significant role and local authority dwellings are a far larger component of the housing stock. Production is, to a large degree, governed by central government subsidies and loans but allocation is primarily a matter for local autonomy.

Rents are controlled indirectly by agreements with non-profit organisations and subsidies to local authorities and directly by laws which, in each country, relate principally to the older housing stock. The degree of controls attempted in the private sector varies from the elaborate arrangements of the Randstad to the complete freedom in initial contracts between landlords and tenants in West Germany. In the latter case only subsequent rent increases are subject to regulation. The structure of rents, in particular differences between the rents in the old and the newer stock, have been subject to specific policy measures, especially in the Netherlands and Denmark.

Each country intervenes in the capital market in a manner which influences the cost and volume of credit flowing to housing producers and consumers. The methods employed vary considerably. Interest costs are subject to varying levels of tax concessions and, in some cases, governments engage in direct lending. Alternative forms of 'special circuits' provide contrasting methods of diverting funds towards housing while leaving private sector institutions as the principal suppliers of funds.

British governments have, in recent years, taken the view that housing conditions in Britain are "as good as in comparable

countries".[1] This is a complacent view. The United Kingdom has a relatively higher proportion of old dwellings. It has, for example, a higher proportion of pre-1919 dwellings than Denmark, West Germany and the Netherlands. Other European countries are both building more houses and investing more in housing. The stock of dwellings compared to the size of population has been smaller in the United Kingdom than in France, Denmark, and West Germany since 1972. Since 1959, the United Kingdom has had a lower level of net additions to the stock compared to the size of population than all the other countries except Ireland; and since 1972 it has been also lower than in Ireland. Gross fixed capital formation in housing(investment in new buildings and improvements) as a percentage of gross domestic product has, since 1965, been lower in the U.K. than all the other countries in this study. In every year since 1954 France, the Netherlands, and West Germany have had significantly higher levels of investment in housing.[2] However, as the information in Chapter Three showed, Britain has experienced much higher levels of expenditure on housing. Housing has taken a greater proportion of consumers' expenditure in the U.K. than all the other countries except Denmark, where the proportion has been greater since 1973. The U.K. thus stands out as a country with high levels of housing expenditure and low levels of housing investment.

The reasons for the U.K.'s low level of housing investment lie partly in explanations of the generally low level of investment in Britain in the post-war period but it is also probable that

---

(1) See for example, H.M.S.O. (1977) 'Housing Policy: A Consultative Document', Cmnd. 6851, p.9.

(2) See the data in Chapter Three, especially Figures 3.6 to 3.8.

the subsidy systems adopted in other countries have more directly encouraged supply. In the U.K., Exchequer and local rate fund contributions to housing revenue accounts have indirectly subsidised public sector housing construction but a major function of these subsidies has been to keep rents at low levels. A pricing rather than an output effect has predominated. This is also true of the owner-occupied sector but here the pricing effect has been in the opposite direction. Britain has lacked subsidies which directly encourage private sector construction. In contrast, other countries have pursued many policies which have directly reduced construction costs and encouraged output in the private sector.

In West Germany, France and the Netherlands builders have been able to obtain low interest loans, and in Denmark and Ireland lump sum grants have, at some times, been available to builders. Building land has been available from the municipalities at below market prices in the Netherlands. These concessions have usually been conditional on the dwellings falling within specific size and cost limits.

Additional incentives to encourage building for owner-occupation have been provided in the Netherlands and Denmark. Grants related to house prices and purchasers' incomes have been available to assist the purchase of new houses in these countries.

Combinations of tax concessions, low cost loans, lump sum and annual subsidies have encouraged investment in housing by private landlords in West Germany, France and the Netherlands. The

incentives have been subject to conditions relating, variously, to the rents and size of the dwellings and the incomes of the tenants.

The high levels of housing expenditure in Britain are associated with less selective demand subsidies for owner-occupation than in all the other countries except Denmark. Mortgage interest tax relief is less 'open-ended' in France and Ireland,being limited by the amount of interest and related to family size in France and by the amount of interest and size of house in Ireland. Tax concessions to owner-occupiers in West Germany are for a limited period and are not available on houses above a certain price. In the Netherlands and Ireland there are arrangements which, in addition to mortgage interest tax relief, subsidise mortgage repayments for lower income purchasers in the early years of a loan repayment period. This selective assistance to owner-occupier demand, which is detailed in Chapters Four and Seven, contrasts with measures in the United Kingdom which serve generally to increase the level of demand and prices. The statistics presented in Chapter Seven show that the United Kingdom has, since 1960, experienced more house price inflation than all the other countries.

## 8.3 Rented Housing

Figure 5.6 showed that rents have not increased as much in real terms in the U.K. as in France, the Netherlands, and West Germany. There was also presented in Chapter Five information which suggested that average rent levels compared with incomes were comparatively low in the U.K. Britain's relatively high levels of housing expenditure, as revealed for example in Figure 3.4,[1] are

---

(1) This shows 'gross rents' defined by 'Eurostat' to include estimates of the imputed costs of home ownership.

largely due to factors at work in the owner-occupied sector. These were discussed in Chapter Seven.

In the private rented sector the growth of rents in real terms, and compared with building costs, has not been sufficient to encourage large amounts ot investment. Information on the use of rent controls, rent levels and the decline of the private rented sector in each country has been assembled. This shows that each country has exercised some sort of control over rents for much of the post-war period but in West Germany, the Netherlands and France private landlords have also been subsidised. Interpreting the information is difficult due to a number of factors, but especially the difficulties of defining the private-rented sector on a comparable basis between countries and of obtaining data about the size of the sector and rates of construction at different points in time. The analysis does however, suggest that a complex interaction of factors including subsidies to owner-occupiers, and slum clearance programmes is necessary to explain the decline of the sector and any explanation which relies only on rent controls is naive. Private renting is declining in all the countries. There is no simple relationship between changes in rents and changes in the size of the private rented sector. The abolition of all rent controls in Britain would be unlikely to have a large effect on investment without measures to increase the demand for private rented accommodation. In this sector, there has been in the U.K. a lack of incentives to both supply and demand.

In contrast to the national agreements on rent determination

which exist in some other countries, public sector rents have usually in Britain been subject to the view that "The government consider the right to fix rents must be left in the hands of locally elected representatives and that rents should ..... be set on a non-profit making basis".(1) From 1972 to 1974 this was replaced by the view that 'fair rents', determined according to nationally set criteria, should prevail. Under the 1980 Housing Act the government has removed the stipulation that, for any local authority, the housing revenue account should not be budgeted for a surplus and the associated subsidy provisions have a significant effect on the rent charged.

While in Britain deference to 'local autonomy' has produced rent levels which vary from area to area, in other countries adherence to 'cost price rent' formulae has resulted in the problem of 'rent gaps' between the rents of older and newer accommodation. The analysis of Chapter Five showed that the distributional problems imposed by 'rent-gaps' are less significant if rent-pooling is promoted. The larger the proportion of the rental stock over which pooling is allowed the less are the distortions, which arise between rent levels for property with similar characteristics but differing dates of construction. While rent-pooling within local authorities reduces the significance of the rent-gap problem in the U.K. a national rent-pool could help reduce the disparities in public sector rent levels that exist between local authorities. Although British governments have rejected the arguments for national rent-pooling(2)

---

(1) H.M.S.O (1977), op.cit., p.36

(2) ibid., pp.86-87

the analysis of Chapters Five and Six demonstrates the advantages of both national criteria for rent determination and a national rent-pool.

## 8.4 Housing Allowances

Chapter Six showed that there are important relationships between the level and pattern of rents and the aims and structure of housing allowance schemes. It was shown that housing allowances have been used with increasing emphasis in recent years, in all the countries studied, as a means of avoiding or correcting some of the alleged deficiencies of object subsidies. Where rents vary significantly with the age of properties or location, one function of housing allowances is to compensate for this inconsistent pricing. If wide geographical variations in rent levels are to persist in the United Kingdom there is a case for varying housing allowances with location to ensure that households with similar personal circumstances in high rent areas are able to obtain accommodation of a standard comparable to that in lower rent areas. The analysis has shown that the more consistent is pricing the less is the case for a housing allowance which varies with housing costs. A lack of consistent pricing has been a powerful argument, in other countries, against the introduction of a universal housing allowance. It has been shown that the introduction of housing allowances cannot, alone, promote an an equitable distribution of housing services if other subsidies and regulations, which arbitrarily distort housing consumption, continue.

This is especially true where allowances apply only to the rented sector and subsidies to owner-occupiers which increase with income

are maintained. It has been argued that supply inelasticities severely limit the ability of housing allowances to induce major increases in supply especially in the short run and, furthermore, housing allowances will have little effect on supply if they are limited to the rented sector for, while these allowances may boost demand, much of the rented sector in each country consists of public housing where increased supply is not necessarily a function of increased demand.

The growth of housing allowances, the growth of owner-occupation and increased rents have been viewed against a backcloth of changing macro-economic circumstances. It has been argued that in all the countries studied, governments were under pressure in the 1970s to reduce debt-related subsidies for reasons of macro-economic management. This pressure met with three sets of responses:-

(a) An increased encouragement of owner-occupation and lower support for public or non-profit rented housing. This reduces direct Exchequer subsidies if the major interest subsidy to owner-occupiers takes the indirect form of tax relief.

(b) An increase in rents in order to reduce the need for deficit subsidies. A difficulty here is that the age structure of an organisation's stock may produce an unfavourable relationship between rent raising ability and debt charges. An organisation with a large proportion of new property with a large debt burden will be in particular difficulties. The problem is eased in the U.K. by rent-pooling. Non-profit organisations

in other countries, which have had to set cost-related rents and have been unable to transfer rental income from older to newer properties, found that the rent increases required for new properties would result in very high proportions of incomes going to rents and substantial reductions in demand. This led to pressure for the third response.

(c) The introduction, or an increase in the significance, of housing allowances to help tenants meet rising rental charges. The growth of housing allowances is thus associated with reductions in direct object subsidies.

As Exchequer subsidies to council housing are withdrawn in the United Kingdom, an examination of the impact of housing allowances becomes more significant for they are then the remaining form of subsidy to tenants. The empirical information presented suggests that a large proportion of households, especially families with children, fail to receive any assistance at all from housing allowances. A major distributional problem in the United Kingdom, as in the other European countries, is the lack of consistency between subsidy systems for tenants and owner-occupiers. This is despite the implementation of some of the Barre proposals in France and the fact that nominally, at least, housing allowances in France and West Germany are available to owner-occupiers and tenants. The inconsistency is, however, of greater significance in the United Kingdon where owner-occupier subsidies are more 'open-ended'. In the United Kingdom subsidies which tend to increase with income for owner-occupiers contrast with subsidies that tend to fall with increasing income for tenants.

## 8.5 Owner-Occupation

The regression analysis of Chapter Seven suggests that differences between countries in the rates of growth of demand for owner-occupation are associated with differences in the growth of rents and the cost and availability of credit and demand may be further encouraged by increased incomes. An investment demand for owner-occupied property might also be promoted by the relative performance of alternative non-housing investments. The supply response will be impeded by factors which limit the elasticity of supply from both new building and transfers from other tenures.

The effectiveness of demand subsidies in raising output and the level of home ownership in the United Kingdom is limited by the comparatively small number of first-time buyers who purchase new houses and the high rate of turnover in the existing stock. Without measures specifically to encourage additional marginal purchasers, general demand subsidies such as mortgage interest tax relief will, in a situation where the supply of dwellings is relatively inelastic, have only a small effect on output and the level of home ownership. Transfers from the private rented sector have been an important source of additional supply of owner-occupier dwellings in the United Kingdom. As the private rented sector has declined, the growth of supply of dwellings for home ownership has relied increasingly on new building and council house sales. The lack of government incentives to new building in the United Kingdom is likely to impede the rate of growth of owner-occupation unless a high rate of transfers from the public sector is maintained.

The econometric analysis is of some significance for it does suggest that,despite institutional and cultural differences between countries, differences in the rate of growth of owner-occupation can, at least in part, be explained by quantifiable differences in such factors as rates of growth of rents, building costs, and the cost and availability of credit. It does, furthermore, expose the weaknesses inherent in over-reliance on policies which raise demand without sufficient consideration of the supply side response.

## 8.6 Reforms in U.K. Housing Policy

Finally, it should be stressed that this comparative analysis of housing policies shows that major contrasts between the United Kingdom and the other countries arise from an absence in the United Kingdom of housing policies for target groups, over-concentration on general assistance and an associated lack of concern with the distribution of housing subsidies. The housing needs of specific groups such as the elderly, single persons, or large families have not received the special attention they have in other countries. Arguments for the maintenance of a large volume of general assitance 'which meets some part of housing costs without regard to an individual householder's ability to pay'[1] have been used to support the continuance of an indiscriminate distribution of mortgage interest tax relief and of Exchequer subsidies to housing revenue accounts while arguments for fundamental reforms, such as the implementation of consistent pricing across all housing sectors and the introduction of a universal housing allowance, have been rejected.

---

(1) ibid., p.32.

Distributional issues have been neglected because in formulating policies governments have failed to take an overview which transcends the different housing sectors. Thus, separate policies for rented housing and owner-occupied housing have been pursued. In the rented sector, problems have been seen narrowly as pricing issues. The levels of rents in both the private and public sectors have been matters for political controversy. In the owner-occupied sector a major issue has been the cost and availability of credit for house purchasers and more recently the concessionary prices for tenants who have the right to buy the property. These perspectives divert attention from a search for reforms which will increase the production of housing services and alter the distribution of these services. Without these reforms the United Kingdom will continue to be a country with high levels of housing expenditure and low levels of housing investment.

# APPENDIX A

## The Principal Individuals and Organisations who have provided information

Much information in a written form and in discussion has been obtained directly from individuals and organisations in Switzerland, the Netherlands, West Germany, Denmark, France and Ireland. Those who provided significant information are listed below. Those marked * have been involved in direct discussion in visits to the various countries.

### Switzerland

1. Badr Kasme, Deputy Chief Librarian, The Library, United Nations, Geneva.

2. Mr. A. Curnow, E.C.E. Information Officer, U.N. Economic Commission for Europe, Geneva.

3. * Mr. F.J. Raes, Human Settlements Section, Environment and Human Settlements Division, U.N. Economic Commission for Europe, Geneva.

### Netherlands

1. J.W.N. Droog, Head of the International Relations Division, Ministerie van Volkshuisvesting en Ruimtelijke Ordening, (Ministry of Housing and Physical Planning), The Hague.

2. * Mr. A.T.J.M. Kampschoer, Central Directorate of Housing Ministerie van Volkshuisvesting en Ruimtelijke Ordening, The Hague.

3. * Mr. J. Van Driel, Algemene Woningbouuvereniging (A large non-profit housing associations) The Hague.

4. * Hugo Priemus, Professor of Housing, Technische Hogeschool, Delft.

5. Mr. F.G. Hendriksz, Assistant Director, European Research Institute for Regional and Urban Planning, The Hague.

### West Germany

1. * Dr. Eugen Dick, Bundesministerium fur Raumordnung, Bauwesen und Stadtebau (Federal Ministry of Regional Planning, Building and Urban Development), Bad Godesberg, Bonn.

2. * Ulrich Pfeiffer, address as above.

3. * Dr. Bernd Leutner, GEWOS (Research Organisation), Hamburg.

4. Dr. Monika Kurth and Johannes Mezler, address as (3) above.

Denmark

1. * Mr. Torben Egede, Boligministeriet, (Housing Ministry), Copenhagen.

2. * Mr. Lavge Vedel, Boligselkabernes Landsforening, (Federation of Non-Profit Housing), Copenhagen.

3. * Mr. Jorgen Sondergaard, Senior Lecturer in Economics, Okonomisk Institut, (Institute of Economics), University of Aarhus.

4. Professor Knud Peter Harboe. Institute of Building Design, Technical University of Denmark, Lyngby.

5. Kreditforeningen Danmark (Mortgage Credit Institution), Copenhagen.

France

1. Ministere De L'Environment et Du Cadre De Vie, Paris.

2. Ministere De L'Equipment et De L'Amenagement Du Territoire Paris.

Ireland

1. Building and Construction Division, Department of the Environment, Dublin.

2. National Economic and Social Council, Dublin.

# APPENDIX B

## LIST OF TRANSLATIONS

Twelve separate translations have been published by the British Library as a result of this research. These are listed below with the British Library reference number.

1. 'Report on Accommodation Allowances Part B', RTS 12382A, August 1980. (Translation from 'Wohngeld and Mietenbericht', 1977, West German Federal Ministry for Regional Planning, Building and Urban Development).

2. 'Report on Rents Part C', RTS 12383A, August 1980. (Translation from 'Wohngeld and Meitenbericht', 1977, West German Federal Ministry for Regional Planning, Building and Urban Development).

3. 'SBI Rapport-Summary' RTS 12384A, November 1980. (Translation from Sondergaard, J., 1978. "Direkte og indirekte tilsud til boligsforbruget" SBI Rapport 107 : Study of direct and indirect housing subsidies in Denmark).

4. 'SBI Rapport Introduction' RTS, 12385A, October, 1980. (Translation (from same sources as (3).)

5. 'SBI Rapport-Chapter 3, The Extent of Housing Grants' RTS 12386A, November 1980. (Translation from same sources as (3).)

6. 'SBI'Rapport-Conclusion RTS 12387A, November, 1980. (Translation from same source as (3).)

7. 'Individual Rent Subsidisation'. A quantitative analysis of the subsidy period 1975/76, RTS 12388A, August, 1980. (Translation from 'Individuele Huursubsidiering Een Kwantitative Analyse Van Het Subsidietijvak 1975/76', Netherlands Ministry of Housing and Physical Planning).

8. 'The effect of Individual Subsidisation', RTS 12389A, October, 1980. (Translation from same source as (7).)

9. 'Individual Rent Subsidisation: A quantitative analysis of the subsidy period 1975/76', RTS 12390A, August 1980. (Translation from same source as (7).)

10. 'An Evaluation of Individual Rent Subsidies as an Instrument of Housing Policy, 1977', RTS 12391A, November 1980. (Translation from 'Individuele Huursubsidie Evaluatie von een Instrument von Volkshuisvestingsbeleid, 1977',H. Priemus, Netherlands).

APPENDIX B (continued)

11. 'The relation between rent subsidy and the objectives of the National Housing policy', RTS 12392A, October 1980. (Translation from same sources as (10).)

12. 'Owner-Occupation-Overall Assessment' RTS 12460A, March 1981 (Translation from "Wohneigentumsquote", Bundesministrium fur Raumordnung, Bauwesen und Stadtebau: Report by West German Federal Ministry for Regional Planning, Building and Urban Development on the determinants of the level of owner-occupation in Belgium, Denmark, France, Great Britain, U.S.A. and West Germany).

# BIBLIOGRAPHY


1. Banque de France (1971), 'Information Note', October. Included in translation in O.E.C.D. (1974), 'Housing Finance : Present Problems.

2. Basman, R.L. (1957), 'A Generalised Classical Method of Linear Estimation of Coefficients in a Structural Equation', Econometrica, Vol.25 pp. 77-83.

3. Boligselskabernes Lansforening (Danish Federation of Non-Profit Housing) (1973), 'Non-Profit Housing in Denmark'.

4. Boligselskabernes Landsforening (Danish Federation of Non-Profit Housing) (1978), 'Hvad bliver Deres husleje i almennyttigt byggeri, nar boligsikring er trukket fra?', (Booklet on the Housing Allowance).

5. Brenner, J.F. and Franklin, H.M. (1977), 'Rent Control in North America and Four European Countries', Washington D.C., The Potomac Institute.

6. Brown, C.V. and Jackson, P.M. (1982), 'Public Sector Economics', Oxford, Martin Robertson.

7. Building Societies Association (1979), 'Building Societies and the European Community', Netherlands Research Group Report (Unpublished).

8. Building Societies Association (1979), 'Housing Finance in Europe', Building Society Affairs, Number 99, September.

9. Building Societies Association (1979,1980), 'An International Comparison of Housing Finance Systems', B.S.A. Bulletins 20 and 21, October 1979 and January 1980.

10. Bundesministerium fur Raumordnung,Bauwesen und Städtebau, Bonn (1977), 'Wohngeld und Mietenbericht', (Federal Ministry for Regional Planning, Building and Urban Development, Report on Housing Allowances and Rent Regulations).

11. Bundesministerium fur Raumordnung,Bauwesen und Städtebau, Bonn, (1979), 'Wohneigentumsquote : Bestimmungsgründe der Wohneigentumsquote in den Ländern Belgien, Dänemark, Frankreich, Grosbritannien, U.S.A., Bundesrepublik Deutschland' (Federal Ministry for Regional Planning, Building and Urban Development, Owner-Occupation Report : Belgium, Denmark, France, Great Britain, U.S.A., and West Germany).

12. Burns, L.S. and Grebler, L. (1967), 'The Housing of Nations', London, Macmillan.

13. Carliner, G. (1974), 'Determinants of Home Ownership', Land Economics, Volume 50 pp. 109-119.

14. Centre for Environmental Studies (1978), 'Private Rented Housing in The Netherlands', (Unpublished).

15. Centre for Environmental Studies (1979), 'Private Rented Housing in France : Draft Report', (Unpublished).

16. Centre for Environmental Studies (1979), 'Private Rented Housing in Europe and the U.S.A. : Main Report', (Unpublished).

17. Centre for Environmental Studies (1979), 'Private Rented Housing in West Germany', Draft Report (Unpublished).

18. Charles, S. (1978), 'Do We Need a Housing Policy?', National Westminster Bank Quarterly Review, August, pp.57-64.

19. Clarke, M. (1977), 'Too much Housing?', Lloyds Bank Review, October, pp. 17-33.

20. Conijn, J.B.S. (1980), 'Dynamisch huursysteem drijft kosten voor overheid sterk op', (cost price rents and subsidies), Bouw, No.20, 27th September.

21. Craig, F.W.S. (1975), 'British General Election Manifestos 1900-74', London, Macmillan.

22. Cullingworth, J.B. (1978), 'Essays in Housing Policy', London, Allen and Unwin.

23. De Leeuw,F. (1971), 'The Demand for Housing : a Review of Cross Section Evidence', Review of Economics and Statistics, Volume 53, Number 1, pp.1-10.

24. Department of Local Government, Dublin (1976), 'Current Trends and Policies in the Field of Housing, Building and Planning'.

25. Department of the Environment, Dublin (1978), 'Current Trends and Policies in the Field of Housing, Building and Planning'.

26. Dick, E. (1977), 'Distribution of Housing costs between the public sector and Individuals', Discussion paper by Dick, E., Civil Servant, Federal Ministry for Regional Planning, Building and Urban Development, Bonn, for U.N.E.C.E. Seminar on Housing Policy, Turku, Finland.

27. Donnison, D.V. (1967), 'The government of Housing', London, Penguin.

28. Donnison, D.V. and Ungerson, C. (1982), 'Housing Policy', London, Penguin.

29. Duclaud-Williams, R. (1978), 'The Politics of Housing in Britain and France', London, Heinemann.

30. European Community Mortgage Federation, 'Conditions for Exercising the Activity of Credit on Real Property in the countries of the European Community' (Unpublished and undated report).

31. European Federation of Building Societies (1979), Sixth European Congress, National Reports.

32. Federal Ministry for Regional Planning, Building and Urban Development, and Federal Ministry for Economics, Bonn, (1978,1979), 'Current Trends and Policies in the Field of Housing, Building and Planning'.

33. Federal Ministry for Regional Planning, Building and Urban Development, Bonn, 'Report on Denmark : The Owner-Occupation Rate', Undated and unpublished report prepared for the Federal Ministry for Regional Planning, Building and Urban Development by consultants in Denmark.

34. Fleming, W. (1973), 'Housing Costs in Europe Compared', Building, 12th October, pp. 123-128.

35. Floor, J.W.G. (1972), 'Rents, Subsidies and Dynamic Cost', Paper submitted by Floor (Director General of Housing and Building, Ministry of Housing and Physical Planning, The Hague) to the XXVIII Congress of the International Institute of Public Finance, New York, September 1972, (also published as a statement from the Ministry).

36. Fuerst, J.S. (ed.)(1974), 'Public Housing in Europe and America', London, Croom Helm.

37. Gelting, J.H. (1967), 'On the Economic Effects of Rent Control in Denmark', in Nevitt, A.A. (ed.) 'The Economic Problems of Housing', London, Macmillan.

38. Goldstein, M. and Khan, M.S. (1978), 'The Supply and Demand for Exports : A Simultaneous Approach', Review of Economics and Statistics (60) pp. 275-286.

39. Gujarati, D. (1978), 'Basic Econometrics', Tokyo, McGraw-Hill Kogakusha.

40. Greve, J. (1971), 'Voluntary Housing in Scandinavia', University of Birmingham Centre for Urban and Regional Studies, Occasional Paper 21.

41. Hallett, G, (1977), 'Housing and Land Policies in West Germany and Britain', London, Macmillan.

42. H.M.S.O. (1965), 'Report of the Committee on Housing in Greater London', Cmnd 2605, Chapter 12.

43. H.M.S.O. (1977), 'Housing Policy : A Consultative Document', Cmnd 6851, and Technical Volume Parts I, II, and III.

44. H.M.S.O. (1977), 'Royal Commission on the Distribution of Income and Wealth', Report Number 5.

45. H.M.S.O. (1982), 'House of Commons ; First Report from the Environment Committee Session 1981-82, The Private Rented Housing Sector', HC40-1, HC40 i-vi.

46. Howenstine, E.J. (1975), 'The Changing Roles of Housing Production Subsidies and Consumer Housing Subsidies in European National Housing Policy', Land Economics, Vol.51, February, pp.86-94.

47. Jaffe, D. (1973), 'The Relationship of Financing to Housing Production in Europe and the United States', in 'Financing of Housing', Proceedings of a U.N.E.C.E. Seminar in Geneva, August.

48. Karn, V.A. (1973), 'Housing Standards and Costs : A Comparison of British Standards and Costs with those in the U.S.A., Canada, and Europe', University of Birmingham Centre for Urban and Regional Studies, Occasional Paper 25.

49. Kalejian, H.H. and Oates, W.E. (1974), 'Introduction to Econometrics : Principles and Applications', New York, Harper and Row.

50. Kendall, M.G. and Stuart, A. (1961), 'The Advanced Theory of Statistics', New York, Charles Griffin Publishers, Volume 2.

51. King, M.A. and Atkinson, A.B. (1980), 'Housing Policy, Taxation and Reform', Midland Bank Review, Spring, pp.7-15.

52. Kreditforeningen Danmark (1978), 'Bonds issued by Danish Mortgage Credit Associations' Booklet issued by Kreditforeningen Danmark, Copenhagen.

53. Lansley, S. (1978), 'Housing and Public Policy', London, Croom Helm.

54. Local Finance (1977), 'Reform of Housing Finance in France : Barre Report', Vol.6, Number 1, 1 Feb., pp. 10-23.

55. Mayo, S.K. (1981), 'Theory and Estimating in the Economics of Housing Demand', Journal of Urban Economics, 10, pp.95-116.

56. Ministère De L'Environment et du Cadre De Vie, Paris (1976, 1977) 'Memento Statistique' (Statistics on housing stock, production and subsidies in France).

57. Ministère De L'Environment et du cadre De Vie, Paris (1976, 1978) 'Current Trends and Policies in the Field of Housing, Building and Planning'.

58. Ministerie van Volkshuisvesting en Ruimtelijke Ordening, The Hague (1977), 'Individuele Huursubsidiering : een kwantitatieve analyse van het subsidietijdvak 1975/1976', (Ministry of Housing and Physical Planning, The Hague, Quantitative Analysis of housing allowances 1975/1976).

59. Ministerie van Volkshuisvesting en Ruimtelijke Ordening, The Hague (1978), 'Individuele Huursubsidie' (Ministry of Housing and Physical Planning, The Hague, Booklet on housing allowances).

60. Ministerie van Volkshuisvesting en Ruimtelijke Ordening, The Hague, (1980), 'Huuraanpassingen in 1980', (Ministry of Housing and Physical Planning, The Hague, information on rent determination).

61. Ministry of Housing and Physical Planning, The Hague (1975,1977), 'Current Trends and Policies in Housing and Building'.

62. Ministry of Housing and Physical Planning, The Hague (1976), 'Housing in The Netherlands'.

64. Ministry of Housing and Physical Planning, The Hague (c.1976), 'Special Housing Needs in The Netherlands'.

65. Ministry of Housing and Ministry of the Environment, National Agency for Physical Planning, Copenhagen (1976), 'Denmark's National Report to "Habitat"', U.N. Conference on the built environment, Vancouver.

66. Muth, R. (1967), 'Slums and Poverty' in Nevitt, A.A. (ed.), 'The Economic Problems of Hãusing', London, Macmillan.

67. National Economic and Social Council, Dublin (1976), 'Report on Housing Subsidies'.

68. Nationwide Building Society (1979), 'Housing and Housing Finance in the European Economic Community', Bulletin, August.

69. Nevitt, A.A. (1966), 'Housing, Taxation and Subsidies', London, Nelson.

70. Nevitt, A.A. (ed.) (1967), 'The Economic Problems of Housing', London, Macmillan.

71. Nora, S. and Evento, B. (1975), L'Amelioration de l'habitat ancien', La Documentation Francaise.

72. O.E.C.D. (1974), 'Housing Finance : Present Problems', Paris, O.E.C.D.

73. Odling-Smee, J.C. (1975), 'The Impact of the Fiscal System on Different Tenure Sectors' in 'Housing Finance', Institute of Fiscal Studies Publication Number 12.

74. Pennance, F.G. (1969), 'Housing Market Analysis and Policy', Hobart Paper Number 48, London, The Institute of Economic Affairs.

75. Pfeiffer, U. (1976), 'Background Information on the Current Housing Situation and Housing Policy in the F.R.G.' (Unpublished paper supplied by the author, The West German Federal Ministry for Regional Planning, Building and Urban Development).

76. Pfeiffer, U. (1976), 'Housing Policy in the Affluent Society', (Translation by West German Ministry for Regional Planning, Building and Urban Development, supplied by the author).

77. Pfeiffer, U. (1976), 'Open Questions about Modernisation Aid', (Translation by West German Ministry for Regional Planning Building and Urban Development, supplied by the author).

78. Priemus, H. (1977), 'Individuele Huursubsisdie Evaluate van een Instrument von Volkshuisvestings Beleid', (An evaluation of individual rent subsidies as an instrument of housing policy).

79. Ravens, K. (1977), 'New Living in old houses', (Unpublished paper by the West German Minister for Environmental Planning, Construction and Urbanisation, translation supplied by the Ministry).

80. Revell, J.R.S. (1975), 'Flexibility in Housing Finance', Paris, O.E.C.D.

81. Sondergaard, J. (1978), 'Direkte og indirekte tilsud til boligsforbruget', Copenhagen, S.B.I. Rapport 107, (Direct and Indirect Housing Subsidies).

82. Stafford, D.C. (1978), 'The Economics of Housing Policy', London, Croom Helm.

83. Steensma, A. (1973), 'Housing Cost and Income', in Proceedings of U.N.E.C.E. Seminar on 'Financing of Housing', Geneva, August.

84. Theil, H. (1953), 'Repeated Least Squares Applied to Complete Equation Systems', The Hague, The Central Planning Bureau.

85. Thuenissen, A.R.A. (1974), 'Financial Intervention by the Authorities of the Member States in the Field of Social Housing', Brussels, Commission of the European Communities.

86. United Nations (1950-1980), 'Annual Bulletins of Housing and Building Statistics for Europe', Geneva, United Nations Economic Commission for Europe.

87. United Nations (1976), 'Housing for Special Groups' (Proceedings of U.N.E.C.E. Seminar, published as a book by Pergamon Press, London).

88. United Nations Economic Commission for Europe (1976), 'Human Settlements in Europe : Post-war Trends and Policies', New York, United Nations.

89. Umrath, H. (1973), 'Main trends in the financing of housing in western Europe and the United States in Proceedings of U.N.E.C.E. Seminar on 'Financing of Housing', Geneva, August.

90. Von Neubeck - Hohlefelder, A. (1978), 'Housing Forecasting and Programming', (Paper prepared for U.N.E.C.E. Geneva, supplied by Federal Ministry for Regional Planning, Building and Urban Development, Bonn).

91. Wiewel, W. (1979), 'Housing Allowances and the Dutch Rent Subsidy Program', Rand Paper, Santa Monica, California, The Rand Corporation.

92. Wilkinson, R.K. (1973), 'The Income Elasticity of Demand for Housing', Oxford Economic Papers, Vol. 25, Number 3 pp.361-377.

93. Wilkinson, R.K. and Gulliver, S. (1973), 'The Economics of Housing : A Survey', in Cooper, M.H. (ed.), 'Survey of Recent Developments in Social Policy and Administration.

94. Woonruimtezaken Rotterdam (1978), 'Randstad Information Notes' in Building Societies Association (1979), 'Building Societies and the European Community', Volume 2, Appendices, The Netherlands Research Group Report (unpublished). (Information notes from the Rotterdam Municipal Housing Department on housing controls in the Randstad area).