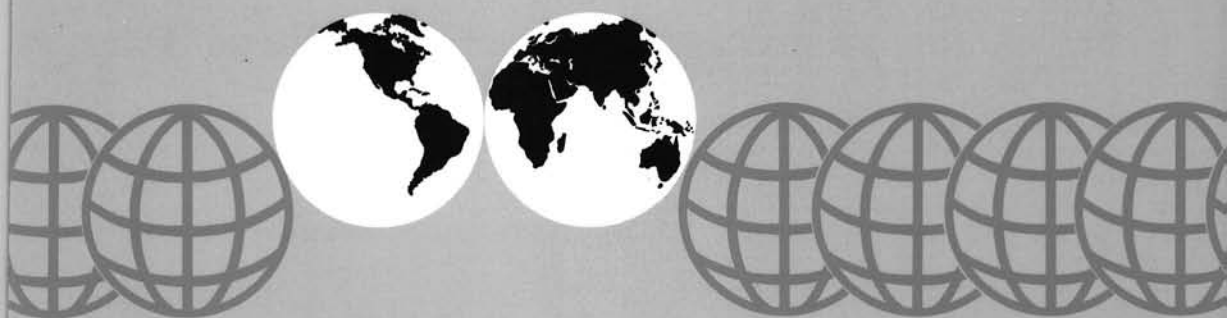


**DISLODGING THE WELFARE STATE?
HOUSING AND PRIVATIZATION IN FOUR
EUROPEAN NATIONS**

Lennart J. Lundqvist



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PREFACE

My interest in the privatization issue was first sparked by some controversies at the International Research Conference on Housing Policy arranged by the National Swedish Institute for Building Research in 1986. Working at that Institute, I had just finished a comparative study of tenure conversions in three countries, where I treated privatization exclusively as a shift from public to private responsibility. With that experience in mind, I did not feel satisfied with the logic of some of the internationally reputed scholars addressing the privatization issue at that conference. If they were right, privatization could be everything. For one remembering his Wildavsky, the immediate reaction was to ask whether privatization may then be nothing. To read some of the recent literature on the subject was even more puzzling. Much was written by people with an ideological bias in favour of or against privatization, and did not elevate the discussion much above the party politics of the day.

This bias and narrow scope of much of the existing privatization research seemed like a challenge. The many signs of an increasing contraction of the welfare state in the industrialized democracies in the 1980's seemed to call for a broader perspective. Was not privatization really much more than the sale of public property, to disappear once nationalized industries were sold off? Didn't it signal a comprehensive restructuring of the boundaries between the public and private sectors, between political authority and market forces? If there indeed was a process of contraction going on, how could one explain its occurrence at this particular juncture in the development of the modern welfare state?

As the reader will soon discover, my left-handedness - which sometimes is a cause for grave concern - made me approach the explanatory problem from a somewhat unorthodox angle, compared to most welfare state researchers. I felt it might be rewarding to hold the leading theories of welfare state expansion to a mirror; if certain phenomena coincide with, and even 'explain', the **expansion** of the welfare state, maybe their mirrored 'opposite numbers' will provide 'explanations' to its **contraction**.

Using as my working definition of 'privatization policy' the shredding of public responsibility for the regulation, financing, and production of welfare, I have studied how the boundary between public and private was redrawn in the housing sectors of four European countries during the 1980's. The journey through the housing sectors of these four countries has made me more aware than ever of the

complexity of comparative research. The reader will find that even if the actors seen in the mirror do move, they do not always do so in ways predicted by rationalist theory. Not only is the mirror framed, thus making actor movements restricted. It is also hung to the wall in specific angles in each country, thus giving specific reflections in all four. To put it in a more familiar political science jargon, actors live and act in specific structural surroundings. The efforts to fully grasp the intricacies of these actor-structure interactions makes one humble indeed. To follow St. Paul, and his latter-day pupil Ingmar Bergman, one feels like looking "through a glass darkly".

But comparative research also has its rewards. Contacts with scholars in other countries is one. International research conferences are another. Opportunities to learn more about other political systems are a third. Papers and reports connected to this research brought me to eight countries, and allowed me to enjoy fruitful discussions and comments. Needless to say, I am solely responsible for the way these experiences are treated in this book.

Halfway through the project, I shifted home base from the Building Research Institute in Gävle to the Department of Political Science at the University of Gothenburg. These environments have one physical feature in common; both are situated near the sea. Yet, they contributed scientifically in very distinct ways to my study. My former colleagues at the Gävle Institute helped me cruise through the tricky waters of housing. The new colleagues at the Gothenburg Department helped me to manoeuvre through the currents and waves of politics. Both environments share an invaluable mental feature; they make life fun not only **during** but also **inbetween** the outbursts of research activity. Of course, they do not share any responsibility for whatever use I have made of their intellectual and spiritual support.

This project would not have been possible without the generous support and time frames for using the money provided by the Bank of Sweden Tercentenary Foundation. The grant made all the necessary international contacts possible.

Finally, Solveig has always understood how important privatized welfare is to a student of public policy. Her support is invaluable.

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HOUSING POLICIES AND PRIVATIZATION; SEARCHING FOR RELATIONS

1.1 The 1980's: An End to Welfare State Expansion?

After the Second World War, the relationship between state and society rapidly changed in western and northern Europe. Nations embarked on a course of state intervention in the economy as well as in other walks of life, allegedly to spur economic growth and to provide a better life for the citizens. The 'Welfare State' was born. For the next three decades, this new state grew to include more and more aspects of the citizens' everyday life. Public involvement expanded to make the citizen better educated, healthier, less dependent on volatile market forces for his or her sustenance, and better lodged.

Naturally, this unprecedented growth in state intervention has attracted the interest of social scientists. How could the welfare state expansion best be explained? The 'pluralist industrial society' school launched the idea of a "logic of industrialism"; welfare state growth is a secular and universal evolutionary process intimately linked to economic growth, industrialization, and urbanization but not to politics (Wilensky, 1975). According to the 'functionalist neo-Marxist' line of thinking, the welfare state grows mainly as a repressive social control mechanism to legitimize the position of the dominant capitalist class in society (Olson, 1982). The 'popular protest' school viewed welfare service development as an effect of elite concessions to policy demands made outside representative, parliamentary channels, e.g., through strikes, demonstrations, or riots (Piven and Cloward, 1971).

Out of the 'power resources' approach, at least two explanations emanated. The 'labour movement' thesis states that welfare services grow as a result of left-wing parties and working class organizations becoming politically more powerful than parties and groups representing capital (Korpi, 1978; Stephens, 1979; Castles, 1982; Esping-Andersen, 1985). A more 'game theoretical' variety holds that public welfare programs grow as a result of decisions of interdependent actors seeking power positions to enhance longer-term policy objectives (Korpi, 1987). Finally, the 'state autonomy' approach gives a central role in welfare state expansion to public officials, who use their degree of autonomy from interest groups to enhance their self-interest by pursuing policies which enlarge the public sector (Niskanen, 1971; Skocpol 1985).

However, from the mid-1970's the advanced welfare states seemed in trouble. Governments found it increasingly difficult to make ends meet. Taxes were raised and expenditures cut, yet deficits kept growing. In response to this 'scissors crisis in public finance' (Tarschys, 1985:23 ff.), politicians began seriously to discuss the 'retrenchment' or 'contraction' of the welfare state. In the United States and Great Britain, active contraction policies were launched, involving such features as deregulation of whole sectors, defunding of welfare services, and privatization of public property. During the 1980's, such policies have been contemplated, and even pursued, in most advanced welfare states.

This trend of the last decade poses some crucial problems for social scientists engaged in efforts to explain the development of the welfare state. Take the 'pluralist industrial society' school; if public welfare and economic growth are parallel trends, how are we to explain the continued increase in privatization measures in many welfare states during the 1980's, despite the re-emergence of positive growth in their economies? And even if many industrialized states experienced a downturn in the business cycle coupled with heavy fiscal stress at the turn of the decade, this has not unfolded in parallel welfare state contractions (cf. Henig, Hamnett and Feigenbaum, 1988:457).

Furthermore, what about 'popular protest'; has privatization expanded because of widespread strikes and demonstrations demanding cut-downs in welfare state services during the 1980's? Also the 'labour movement' theory meets with problems here; if public sector approaches to welfare provision are particularly visible in states where Left parties and trade unions hold a crucial power position, how are we to account for the evident interest in, and actual adoption of, privatization alternatives in such countries? And finally, what about the 'functionalist neo-Marxist' explanation; should privatization be seen as evidence that the use of state repression has become less necessary for capitalists in the 1980's, amidst increased unemployment and labour market unrest? Or should privatization be seen as a corroboration of another neo-Marxist thesis, i.e., that the welfare state has finally reached its limits, where any further expansion would threaten the functions of the capitalist economic system (Gough, 1979; cf. Offe, 1984:153)?

In this book I want to examine, and possibly explain, the process of privatization in one sector of public involvement, i.e., housing. Empirically, I do so by comparing the housing policies of four countries; Great Britain, The Netherlands, Norway, and Sweden. Theoretically, I view privatization as a case of welfare state contraction. Therefore, I assess in this chapter the 'power resources' approach, which views welfare state **expansion** as a result of the rational actions of individuals or collectivities, gaining political power and representing groups who are weak in market resources.

As these actors use their power resources to expand the realm of the public sector, they face different restrictions and possibilities from earlier policy decisions, institutional arrangements, and the like. I therefore also examine different institutional typologies of the welfare state, particularly recent typologies in housing research. The question is whether this 'power resources' approach could be used also to explain the welfare state **contraction** inherent in the withdrawal of public

sector responsibility from activities concerned with housing provision. Could this be explained by the coming to political power of parties representing 'market-strong' groups? Or has the expansion and success of the welfare state created a wholly new landscape of political power resources, forcing earlier expansionist parties to reassess and restructure the public-private mix? And finally, could different institutional restraints facing political actors fighting to keep or gain political power resources explain how and why this withdrawal assumes different patterns in different countries?

1.2 Privatization as a Policy in Housing

To succeed in answering the "Why?", one must have a clear view of "What?" one wants to explain. The word 'privatization' has come to take on so many shifting meanings. Initially, it may have been conveniently defined as the transfer of government industries to the private sector (Peacock, 1984:3). But the transfer of public property does not necessarily include what we normally see as welfare. Some view privatization as the introduction of market principles in the distribution of welfare services (Forrest and Williams, 1984:1167, Shackleton, 1984:59, Adams, 1987:129). To others privatization represents a move from collective to individual levels of service provision; they say that the decisive criterion is the 'decollectivization' of welfare services (Harloe and Paris, 1981:77 f.; Kemeny, 1980:347). Finally, some use the techniques for shifting responsibility from public to private as the criterion for defining privatization (Heald, 1984:38 ff.; Lorentzen, 1987:263 ff.).

In my view, neither the shift in principles or levels of welfare provision, nor the "how to do it" provide satisfactory definitions. What we look for is a definition of privatization as a **conscious public policy**. I have suggested that for the comparative study of privatization policies, a fruitful way of defining privatization may be to look at the location of responsibility and type of welfare state activity (Lundqvist, 1988a:12). Privatization should be seen as "actions taken by actors legitimately representing the public sector to transfer the hitherto public responsibility for a certain activity away from the public and into the private sector". This relocation of responsibility thus becomes the main criterion for delimiting 'privatization' in a general policy sense, regardless of policy area. If the focus is on policies for welfare service provision, we find that several main activities are involved. The search for privatization patterns thus necessitates a classification of such activities.

In much of the criticism of housing policy research, there is an underlying thought that if focusing on policy, the comparative study of housing (necessarily) becomes non-inclusive, non-neutral, and non-conclusive. Housing policy researchers have forgotten that since "comparative public policy is the study of how, why, and to what effect different governments pursue particular courses of action or inaction" (Heidenheimer et al., 1990:3), the 'particular courses' element must be given serious attention. They have not bothered enough to develop a definition of policy content derived not from what some policymaker somewhere thinks ought to be done, but only from the necessary and general logic of housing provision. Such a definition

is a prerequisite not only for descriptive cross-national and cross-temporal comparison of housing policies, but also for comparative analyses of why this or that element is not present in a policy or why particular patterns of public-private responsibilities in the housing sectors of different countries occur, develop, and change.

To get to the logically possible content of policy regardless of national context, we may begin with the proposition that the housing sector is a system characterized by a perpetual process of adjusting households and dwellings to each other, i.e., by the incessant interplay between producer supply and consumer demand (cf. Ball, 1986:160). This system involves two main analytical categories, i.e., subjects (producers and consumers) and objects (dwellings) (cf. e.g., Oxley, 1987:165 f.). Producers are here widely defined as those actors involved in the production stage of the process, i.e., in the planning and construction as well as the actual provision of housing through allocation, distribution, sale, letting and the like. The consumption stage of course involves the consumers' use of dwellings for shelter as well as the 'finalization' of that supply.

Logically, the process of adjusting objects and subjects, production and consumption to each other may take many forms, the opposite ends of the continuum represented by the market principle of 'from everyone according to ability' and the welfare state principle of 'to everyone according to need'. This implies that two factors can be singled out as crucial in the adjustment process; household purchasing power and dwelling price, where the first directs attention to consumption, and the second to production of housing.

To begin with, the price of a dwelling depends on the costs of the production factors; land, labour, and capital. However, it will also depend on the dwelling's quality, i.e., its space and equipment standard. Furthermore, the quantity of dwellings will affect prices; the less the supply, the higher the price at a given demand. Household purchasing power is determined not only by the household's income from work, but also by revenues from capital and land. Furthermore, the taxation of a household's incomes from labour, land and capital are important. Finally, transfers to the household affect its purchasing power.

Figure 1.1 outlines the 'particular courses of action or inaction', i.e., the policy content logically open to any government under the generally applicable logic of the processes of housing systems. Inclusive as it is, it allows for comparative analysis of what governments do or do not do, regardless of the particular political movement or coalition which happens to be in power, and of the policy discussions in vogue in a nation at a certain point in time. Such content comparisons will reveal particular patterns of public intervention for each nation.

Governmental intervention can take the form of regulation of the quantity, quality and price of production factors, dwellings produced, and dwellings in the stock. Furthermore, regulatory intervention may concern how households and dwellings are matched, i.e., the criteria for allocation and distribution. Regulations also affect power, e.g., the forms of housing possession available, and the rights and duties these forms give to producers and consumers of housing.

Figure 1.1 Possible State Interventions into the Housing Sector
 (Cf. Korpi, 1980: 302; Lundqvist, 1986a: 215)

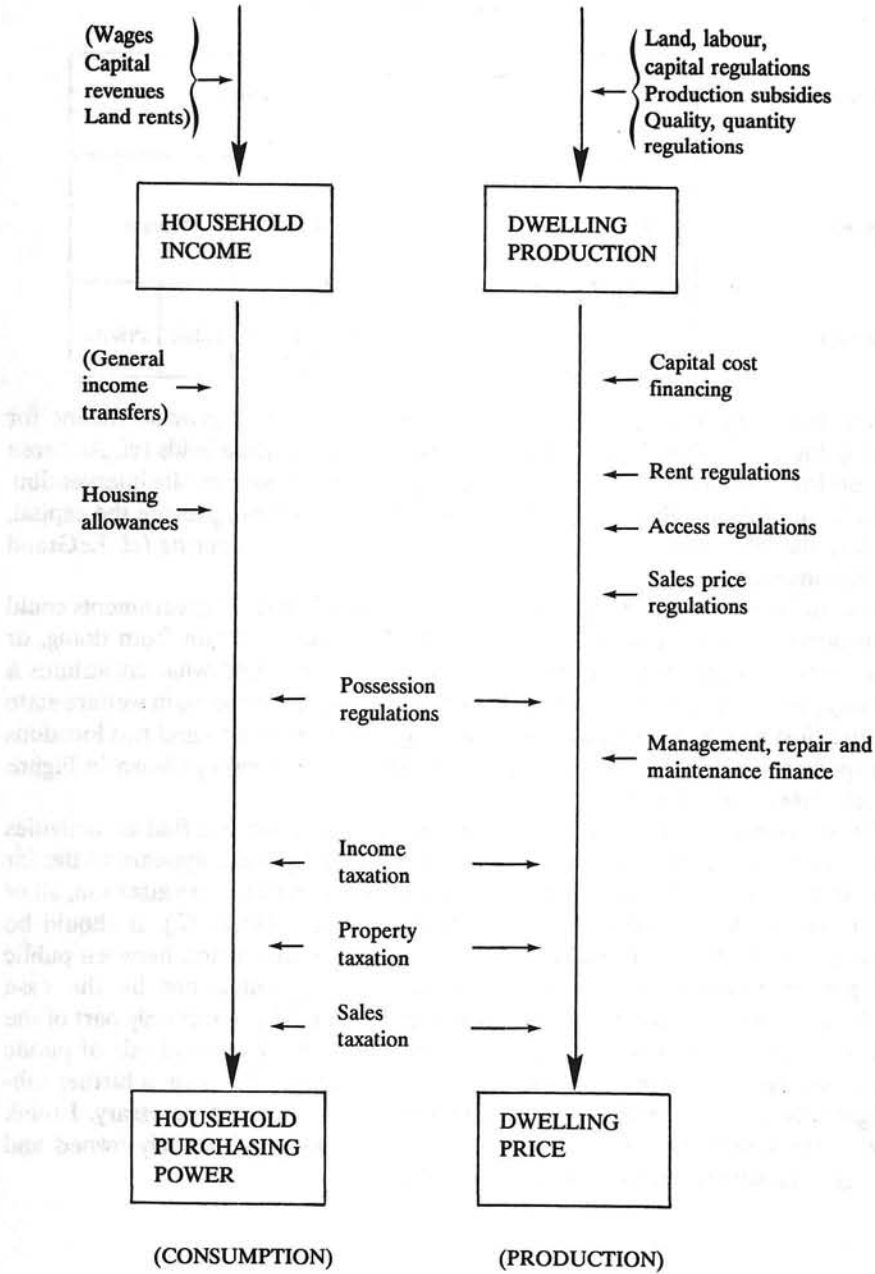


Figure 1.2 A Taxonomy of Privatization Policy Alternatives

Activity	Location of responsibility							
	Public				Private			
Regulation								
Financing	Public		Private		Public		Private	
	Public	Private	Public	Private	Public	Private	Public	Private
Production	Public	Private	Public	Private	Public	Private	Public	Private

Intervention may also concern **finance**; housing policy can provide means for altering the price of dwellings or the purchasing power of households (cf. Ambrose and Barlow, 1987:114). Of course, it is entirely possible to have public intervention in the form of **production**; the public sector may own the land, provide the capital, and hire the labour to produce, own, manage and distribute housing (cf. LeGrand and Robinson, 1984:3 ff.).

Now that we have defined a logically possible content of what governments could do in housing, we have also determined what they could refrain from doing, or leave to the private sector. In other words, we can delineate what constitutes a logically possible privatization policy in housing. Using the three main welfare state activities just mentioned - regulation, financing, and production - and two locations of responsibility - public and private - we arrive at the taxonomy shown in Figure 1.2 (cf. Lundqvist, 1988a:15).

The taxonomy reveals eight different patterns. To the left, we find all activities placed within the public realm, while a fully privatized pattern appears to the far right. In between, there is a range of six alternative patterns for privatization, all of which involve "mixed economies of welfare" (Walker, 1984:22 ff.). It should be noted that while the figure makes a clearcut analytical distinction between public and private responsibility for each activity, this may often not be the case empirically. One example is housing finance; public subsidies cover only part of the costs of housing. Likewise, there may be a very intricate real world mix of public and private in the production and distribution of housing. Of course, a further sub-categorization is fully possible, and in the case of housing also necessary. I think here of the alternative of dispossession, i.e., the transfer of publicly owned and managed housing to private organizations or individuals.

李取利译

1.3 The 'Power Resources' Approach and Welfare State Retrenchment

As stated earlier, my aim is to explain why different patterns of privatization in housing have occurred in four European nations, by using an elaborated 'power resources' theory of welfare state expansion also to explain contraction processes. This theory of welfare state growth points out that in all societies, there is a particular balance between the state and the market, i.e., between different criteria for the provision of goods and services. These are identified as buying power in the market and citizen rights in politics. The public-private balance in welfare provision is interpreted as a result of how different actors and collectivities on each side of the labour-capital divide have mobilized and used their respective political power resources to affect it (Korpi, 1987:10).

The approach rests heavily on rationalistic assumptions at the same time as it seeks to provide a long-term historic explanation for the different patterns of public welfare expansion in modern nations. Its basic theoretical assumption is that actors and collectivities "which are weak in terms of their market resources can be expected to attempt to use their relatively more favourable positions in terms of political resources to affect the conditions for and outcomes of distributive conflicts in society because the potential gains, which come to an actor from limiting the sphere of market operations, and market criteria in distribution, will increase with decreasing market capacities of the actor." (Korpi, 1987:9 ff.).

Empirically, the labour movement and the parties to the Left have been the main representatives of the classes weak in market resources. In democratic countries

where they have outgrown right-wing parties and capitalist organizations in power resources, i.e., in votes, and thus gained a governing position, there is a tendency for public welfare programs to increase somewhat more than where 'market-strong' actors and collectivities have retained governmental power (Pampel and Williamson, 1985:784). It should be noted that where parties are not organized according to class but along other lines, such as the Dutch confessional parties, the tendency towards welfare state expansion reflects the relative strength of 'market-weak' groups *within* the ruling party or parties (van Kersbergen and Becker, 1988).

The theoretically derived connection between increased power resources for actors and collectivities representing 'market-weak' segments of society on the one hand, and welfare state expansion on the other, (which some say exist also empirically; see Shalev, 1983; Skocpol and Amenta, 1986:140), has important implications for the efforts of generating hypotheses about privatization of welfare services. First of all, it builds on the assumption that actors on each side of the labour - capital divide seek political power, not just for power's sake, but to use it to adjust the boundary between state and market to satisfy the perceived interests of their constituencies. It follows that actors representing 'market-weak' classes will use their power resources to expand the 'non-market' provision of welfare. In the extreme case, every service will be publicly provided. Where the collective actors representing 'market-weak' groups have an overwhelmingly strong power position, there will thus be no move towards privatization in the sense defined above. It

furthermore follows that actors representing 'market-strong' segments in society will use their political power to expand the private provision of welfare. In the extreme case, all welfare will be privately provided. Where the 'market-strong' collective actors hold a stable long-term position of political power, there will in the end be nothing left to privatize in welfare provision.

However, such an application of the 'power resources' theory seems too un-sophisticated. We simply cannot postulate such a linear relationship between the actors' political power position and welfare state development. Historically, 'market-strong' collective actors have adopted public welfare programs, and those representing the 'market-weak' strata have sometimes supported moving programs out of the public sector.

Is there any way to accommodate such cases within the 'power resources' approach? According to its main architect, the approach should be viewed as what "in essence amounts to a game-theoretical perspective on the analysis of interdependent actors, where the decisions made and the strategies adopted by each actor are seen as affected by the actor's perceptions of the relative power and probable choices of other actors." (Korpi, 1987:12). This implies a non-linear relationship between increased political power for working class organizations and Left parties on the one hand, and public welfare expansion on the other, which in turn has important implications for a predictive theory of privatization. It modifies the assumption that actors seek political power only to promote their long-term goals with regard to the proper demarcation between state and market. To a considerable extent, their actions can also be explained as calculated moves to gain or retain power in a competitive political environment. As Quadagno (1987:116) puts it; when "organized labour attempts to implement socialist goals through competitive political parties, it is constrained by the need to expand the party base beyond the working class".

In this version, the 'power resources' approach can thus be used to explain 'socialization' or 'privatization' moves which seem contradictory to what our assumptions about the links between 'market-strong' or 'market-weak' power bases and the ensuing ideological view of proper state-market boundaries in welfare provision would have us predict. However, if every decision concerning the boundary between public and private welfare provision could be explained as calculated moves to gain or retain political power (cf., e.g. Rimlinger, 1971; Ascher, 1987:47 f.), then we seem to end up in the morass of scientific reductionism. Whatever the differences found in the patterns of welfare state retrenchment in the housing sector, they are explained by the power-seeking behaviour of political actors.

On the other hand, this should not be read as an all-out dismissal of Korpi's modification. Indeed, power calculi may be of utmost importance. What I am suggesting here is that his game theoretical variant of the 'power resources' approach must be seen in an institutional context, if any fruitful propositions are to be gained from it. It does not take much imagination to see that power calculi may play a much more central role in a balanced power situation than in a context where either the 'market-strong' or the 'market-weak' party constellations have a

very strong and stable majority. Thus, the efforts to build a predictive theory of welfare state contraction have to combine the rational actor approach with an institutional perspective.

1.4 The Institutional Setting of Welfare State Contraction

It is important to recognize that goal-seeking politicians are all acting within an institutional framework. At the same time as rational individuals create and maintain institutions through their endeavours to expand or contain the welfare state, these "institutions delimit future choices" (Levi, 1987:687). Therefore, "theories of political science must be conscious of the interplay among political institutions, the wider society, and individual actors. How do institutions generate or block change? How do they influence individual preferences, expectations, and resources?" (Olsen, 1985:5; my translation).

But what are the institutional forms most relevant to political actors promoting or fighting privatization as a form of welfare state contraction? And how should they be characterized to help us see the interplay between institutions and actors? Those who study historical variations in state structures contend that such institutional features as democratization, bureaucratization, parliamentarism, and electoral systems have an independent influence on the timing and content of welfare state-related proposals and policies (see, e.g., Skocpol, 1980; Torgersen, 1984a; March and Olsen 1984). This points to some general institutional features found in most political systems. But we also know that the development of the modern welfare state, not the least in housing, has taken different routes in different countries. Therefore, we cannot assume a priori that all such states are identical with regard to institutional forms.

To bring some order to this general discussion of institutional settings and their importance, three dimensions seem particularly relevant. First, there is the legacy of **earlier policy**. As for the **extent** of earlier interventions, we may start out with the well-known distinction between **supplementary** and **comprehensive** policies. A supplementary policy is usually defined as one which is only "imposing some minimum standards on the operation of the market and meeting needs which the market cannot satisfy" (Donnison and Ungerson, 1982:16). Comprehensive policies are much more extensive. At their peak, they "aimed at controlling and planning the total volume of housebuilding in the economy... (and)...took responsibility to meet the housing needs of the entire population" (Adams, 1990:101). However, we must also look at the **direction** of earlier interventions. With regard to housing, we stated earlier that welfare states may direct interventions at both **production** and **consumption**. The housing sector is further distinguished in that interventions may be directed towards different forms of housing. Of particular importance here are housing **tenures**; owner occupation, renting and cooperatives.

Second, there is the type of **implementing structure** resulting from earlier interventions. Here, we want to know whether the relevant 'policy networks' are characterized by a 'strong state' or 'weak state' position. The evaluation of public

institutional strength or weakness concerns "first, the degree to which ultimate decision-making power is concentrated in the hands of a relatively small number of officials, and secondly, the degree to which these officials are able to act autonomously." (Atkinson and Coleman, 1989:51). In other words, have the nations built up a strong bureaucracy to implement housing policy decisions, and to provide the capacity for evaluation and input into continued or new policies? We would expect a close relationship between the degree of comprehensiveness in housing policy and the strength of public housing bureaucracies. The stronger the bureaucracy, the more pervasive and direct will be the state intervention in the housing sector. The contrary may also be true; the more supplementary the policy, the smaller the housing bureaucracy, and the less dominant the public position in housing.

Evidently, bureaucratic autonomy is related to the **organization of relevant interests** in the sectoral 'policy network'. The massive construction programs set in motion after World War II depended on working through the traditionally fragmented building industry. Governments preferred to deal with more comprehensively organized interest associations who could mobilize their members to take part in the large-scale production efforts, and even "used the power of the state to bolster the associations' position." (Adams, 1987:130). Thus, the more comprehensive the public intervention, the closer became the ties between the public sector and the highly mobilized producer interests. However, even in more supplementary systems, there has been a "universal tendency for producer groups to organize into large-scale associations" to influence public interventions in the housing sector (Adams, 1987:142). Regardless of policy legacy, consumer interests seem less mobilized.

To sum up; in explaining why patterns of welfare state contraction diverge among countries because of the interplay between goal-seeking political actors and institutional features (cf. Henig et al., 1988:459 ff.), three contextual dimensions seem highly relevant; the legacy of earlier policy, the strength of public bureaucracies, and the organization of affected interests. A sector characterized by limited intervention, dependent and dispersed bureaucracies, and a low degree of organized interest mobilization provides a different institutional environment for welfare state contraction than one with comprehensive intervention, concentrated and autonomous implementation structures, and highly mobilized sectoral interests.

1.5 Power Resources, Institutional Settings, and Privatization in Housing; Proposing Possible Patterns

We have just outlined in broad and general terms that earlier struggles between parties with differing 'power resource' bases shape much of the institutional setting relevant for future policy choice. When the 'scissors crisis' hit many developed welfare states in the 1970's, every state's housing sector thus had "a history and a set of determinants governing its action" (Marcuse, 1982:86), i.e., there were both specific patterns of intervention and specific policy networks.

What makes the housing sector special in this regard are the many lines and

combinations of possible sub-sector settings that could develop. As noticed earlier, the housing process is characterized by the incessant interplay between supply and demand, which in turn indicates that intervention, institution-building, and interest organization may be directed at dwellings as well as households, producers as well as consumers. Furthermore, the housing sector is divided into distinct subsectors, according to type of tenure. Here renting is specific in that it discriminates between producers and consumers, regardless of whether there is public or private ownership of the rental stock. The sub-sectors of owner occupation and cooperative housing blur this principle, since households assume both producer (investor) and consumer roles. It is also fully possible that the institutional setting and the organization of affected interests may develop according to the activities performed by the public sector in housing; regulation, financing, and production. All these possible sub-sectors may differ in terms of the relationships between implementing agencies and organized interests. It is important to note that these institutional settings may also - for analytical purposes - be seen as actual, prospective or hostile power resource bases for political actors pursuing policies of housing privatization.

To bring this institutional hodge-podge down to more manageable policy network proportions, some housing researchers have used the concept 'structures of housing provision'. Much in line with the reasoning around Figure 1.1, they refer to 'housing provision' as "the physical process of production, allocation, consumption and reproduction of housing", and to a 'structure of housing provision' as specifying "the nature of the social agents involved in the provision of a particular form of housing and their interlinkages", where these linkages are often referred to as "social relations of housing provision" (Ball, 1986:160; 1988:29).

Some argue that there are systematic relationships between structures of housing provision and policy developments (cf., e.g., Chouinard, 1989:403 ff.). Ball (1988:32) notes that it is "remarkable how little the state has interfered with the evolution of structures of provision in ways which contradict the aims of the major private agencies involved, despite frequent political pressure". Despite partially very low interest mobilization, some structures of provision, especially for the owner-occupied sector, may evolve into 'myths' which "legitimize policies that benefit the powerful, and support anachronistic perceptions of policy problems" (De Neufville and Barton, 1987:181). On the other hand, specific structures of provision may be consciously broken because they do not fit the ideological and strategic view of the party in power (cf. Malpass, 1990:186 ff.).

Such observations are, however, not explicitly linked to theories of welfare state development. Neither are they linked to the discourse on variants of 'corporatism' and 'pluralism' as characteristic of policy networks in the developed welfare state (Atkinson and Coleman, 1989:54). In this study, one of the main tasks will thus be to assess empirically the strength and functions of the governmental bureaucracies, and of financing, building, allocating and consumer interests in terms of the network types presented above. In so doing, we will try to identify the dominant structures of provision, i.e., policy networks, existing in the housing field at the outset of more serious privatization efforts.

This is necessary for the testing of some general propositions about the interplay

between institutionalized 'social relations of housing provision' and the rationalist 'power resources' approach to welfare state development on the one hand, and distinct patterns of privatization on the other. In other words; which institutions and structures of housing provision resulting from market processes and interventions scheduled in Figure 1.1 would seem to be linked to specific privatization patterns outlined in Figure 1.2, given (1) that there are particular constellations of 'market-strong' and 'market-weak' power resources in the legislature, and (2) that housing privatization is on the political agenda (cf. Lundqvist, 1989)?

Let us begin with a scenario, where the housing sector shows the following features; (a) a **supplementary** policy targeted towards specific tenures and 'market-weak' households, in combination with tax policies favouring home ownership for the 'market-strong'; (b) **fragmented** implementation structures; and (c) relatively **low mobilization** among affected interests. An important underlying condition is perceived or real fiscal austerity.

In this **pluralist** institutional setting, what is the most likely course of privatization for a government representing 'market-strong' segments and enjoying a majority of political 'power resources'? Since we assume that the ruling 'market-strong' party has an ideological commitment to market solutions in housing, and is determined to keep and widen its power resources base among the 'market-strong', we may predict a pattern of **definancing** and **dispossession**, but also more **regulation**.

Power resources calculi will lead to a specific pattern of definancing, to include cuts in state support to the production of housing for 'market-weak' households, as well as cuts in direct housing consumption support, e.g., through further restrictions on household eligibility. This can be done because target groups of direct housing support are weakly organized, and alliances between public providers of welfare and their clients are rare. For both these reasons, a 'market-strong' party may also adopt a strategy of dispossession of public housing. However, such calculi will prevent 'market-strong' parties from touching existing indirect support to marketable tenures like home ownership. This may also be due to ideological views of home ownership as the "best" or "most natural" tenure.

Three arguments lead us to predict a continued, or even strengthened, **public regulation**. One is the need for a more 'state-directed' policy network, since dispersed housing bureaucracies have a considerable amount of autonomy and may provide pockets of resistance to the privatization policy. Furthermore, the 'pluralist' relation between the state-governing party on the one hand, and the firms competing in the market on the other, makes ideological 'recognition' and trust less reliable as control mechanisms than outright regulation (cf. Heald and Thomas, 1986:63). The third is that for both ideological and strategic reasons, the ruling 'market-strong' party will regulate to guarantee the smooth functioning of market solutions.

A 'market-weak' party reaching a favourable 'power resources' position in this institutional setting will most probably not interpret this as a clear mandate for privatization. Still, the fiscal situation precludes massive increases in public **financing** to transfer public money to the 'market-weak'. The alternative of **definancing** housing consumption through tax reforms may be contemplated, but

only if the households affected do not form a large actual or potential constituency. To gain acceptance for its policies, the 'market-weak' party may try to draw affected interests closer by giving them responsibilities in both the production and regulation of housing services (cf. Rein and Rainwater, 1986:39). Although this presupposes a stronger state structure in housing, it still represents privatization through **deregulation**.

If we have a more even balance between 'market-weak' and 'market-strong' parties in a 'pluralist' housing sector, we may predict that the policies toward privatization will be more marked by power calculi than when either party - or group of parties - enjoys a strong majority. From the 'market-strong' parties convinced that individual ownership of marketable housing is the ideal housing alternative, we may expect even stronger efforts of **dispossession** of public housing in order to gain votes from crucial constituencies who are 'boundary cases' in terms of market strength. However, such power resource calculi may also force the 'market-strong' majority to go more easy on public **definancing**.

In such a balanced power situation, a party representing 'market-weak' segments will presumably opt for **deregulation**. The strategic calculus of the 'market-weak' party points towards the positive effects of transferring some of the responsibility for production and allocation activities to such organized housing interests which could become their future 'network' allies. This is even more so if the constituencies affected are not yet fully tapped by the 'market-weak' party.

Let us now turn to a scenario, where the housing sector shows the following features; (a) **comprehensive** public interventions, through finance, regulation, and production, not restricted to certain tenures or groups of households, in combination with tax policies favouring home ownership for the 'market-strong'; (b) **concentrated** implementation structures with considerable autonomy, and (c) relatively **high mobilization** among affected interests. Again, an important underlying condition is perceived or real fiscal austerity.

A 'market-strong' party coming into a majority position in this setting will be facing institutional obstacles when trying to privatize in the housing sector. Highly mobilized interests who play central roles in the 'structures of housing provision' have vested interests in the prevailing public-private mix. Working closely with the strong governmental bureaucracies, they will fight against privatization proposals which could weaken their position or threaten the public programs from which their members benefit (cf. Ascher, 1987:265). We can thus predict that a 'market-strong' party will try to break up these structures of housing provision by (a) **regulating** to create a more 'state-directed' policy network, (b) **definancing** production in sectors where these structures of housing provision have been particularly strong, and (c) **transferring ownership** of housing to tenures less amenable to such institutionalization. As in all situations of 'market-strong' power, indirect financing will be kept in place for those tenures cherished by the 'market-strong' parties' actual and potential constituencies.

When there is a fiscal crisis which points to the necessity of welfare state retrenchment, what could a 'market-weak' party with a stable overweight in political power resources possibly do in an institutional setting characterized by **comprehen-**

sive financing, a large share of **public production**, and **self-regulation** by highly mobilized interests? When these interests are ideologically affiliated to the ruling party, and working in close cooperation with the bureaucracy, we have 'state-directed' structures of housing provision. Of course, one could argue that such a setting provides the ruling party with considerable leeway in turning the course towards privatization. In terms of political power resources, however, this may ideologically alienate, or economically hurt, actual or potential constituencies. If the 'market-strong' segment enjoying tax-subsidized housing consumption is fairly small, we may expect partial **definancing** through cuts in tax benefits to home ownership, in order to make room for continued financing of housing production for the 'market-weak'.

What happens if neither 'market-strong' nor 'market-weak' parties have a dominant power resource position in this institutional setting? Most probably, 'market-strong' party or parties may try to break up the 'monopolistic' structures of 'market-weak' housing provision; **regulation** and **deregulation** will be firmly used to provide for a competitive, well-functioning market. The **dispossession** alternative will be contemplated to attract potential power resources. Most certainly, nothing in the way of **definancing** will be contemplated that would unseat tax-subsidized households.

For 'market-weak' parties, the situation will be extremely difficult. The larger the constituency enjoying tax-subsidized marketable housing forms, and the more precarious the power resource base, the less political possibilities will there be for 'market-weak' parties to **definance** through increased taxation on housing. Indeed, there may be a paradox here; the larger the share of individually marketable, tax-subsidized housing, the less room for privatization through **definancing** will there be for any party constellation, despite the fact that such housing forms usually show the lowest degree of interest mobilization.

1.6 Comparing and Explaining Housing Privatization Patterns; Four European Cases

The linking of the power resources approach with an institutionalist perspective, and the subsequent derivation of propositions about possible privatization patterns following from the interplay of actors and institutions, has been driven by the motive of **cumulativity**. As Przeworski (1987:35) points out, "comparative research consists not of comparing but of explaining". To provide answers to "why?", theory-based cross-national analyses seek to explain patterns and discrepancies found among nations, so that "generalizations may be made about the broad factors which help to structure housing markets and policies" (Harloe and Martens, 1984:272; cf. Oxley 1989:131). Such comparative analysis "defines the limits of generalisation by specifying the conditions under which hypotheses are valid" (Berthoin Antal et al., 1987:14).

However, comparative analysis also suffers from the adversity of insufficient data support. The number of empirical cases is usually too small to allow for strict tests

of theoretically derived propositions. In our case, we would soon run out of welfare states, if we were to have enough comparable cases for each of the possible patterns derived earlier. Furthermore, the data to be retrieved from selected countries may be problematic in terms of comparability. Admittedly, comparative research has devised methods of case selection to enhance the prospects of generalizability from few cases (cf. Przeworski, 1987).

In selecting only four European nations for this comparative study of housing privatization policies, one is made dramatically aware of these methodological problems. There is need for intellectually plausible justifications to include them in the study and then use them for a more general discussion of privatization patterns in modern welfare states.

An important motive for choosing Great Britain, the Netherlands, Norway, and Sweden was - I astutely admit - convenience. All of them have well researched housing sectors, and I had a relatively good knowledge of Great Britain and Sweden from my earlier work in the field of housing (cf. Lundqvist, 1986b; 1988b). Data gathering and assessment would thus pose less of a problem than if some other, less researched countries had been chosen.

But that still is no guarantee that they present good and fruitful cases for the comparative analysis outlined earlier. As it turns out, however, such a case can be made for each one of the selected countries. Take Great Britain; with a parliamentary system based on plurality in single member constituencies, the country is in reality a two-party system divided along 'market-strong' (Tory) and 'market-weak' (Labour) power resource lines. Both parties have contributed to public involvement in housing, but it is fair to say that Labour has been the more active in the rental sector, developing that special British structure of housing provision called local council housing, while Tories have ideologically favoured owner occupation.

It also seems fair to characterize the pre-Thatcherian British housing sector as deconcentrated, with a good degree of local autonomy. It was also characterized by low interest mobilization housing interests. The strongest structure could be found in public rental housing, where at least in the larger cities and towns a strongly knit alliance of politicians and implementing agencies could wield considerable political power resources. A study of housing privatization under the 'market-strong', political resource-wise dominant Thatcher Government may thus help assessing the plausibility of the relationships between 'dominant power resources' positions and privatization patterns derived earlier.

The Netherlands is a different case on several important accounts. First, it has an electoral system of proportional representation. With no party achieving a majority, the country has a long history of coalition governments. Furthermore, the parties themselves have traditionally been organized along confessional lines. This means that each of the larger, leading parties has been based on power resources, including both 'market-strong' and 'market-weak' segments of the population. Housing provision structures were historically developed along confessional lines, particularly in renting. Implementation structures were dominated by central government. The patterns of privatization would thus be dependent not only on the combination of political parties in government, but also on the outcome of the

continuing struggle for power between 'market-strong' and 'market-weak' segments within the political parties. The Dutch case thus enables us to elucidate, and possibly refine, the 'power resource balance' propositions developed above.

Then there are Norway and Sweden. These two Scandinavian neighbours both have multi-party systems, based on proportional representation. Differently from the Dutch case, however, both Norway and Sweden experienced long periods of stable Social Democratic governments. Both countries established 'comprehensive' housing policies after the war. They differed, however, in terms of implementation structures and the position of organized interests. Norway concentrated around the activity of finance, where the State Housing Bank got an all-powerful position. Norwegian Social Democrats wanted to free households from the 'yoke of landlordism' and opted for **private** production and ownership, either individual self-build or cooperatively organized production and allocation. In particular, the cooperative sector became a highly mobilized interest close to the Social Democrats.

To Sweden, freedom from exploitation was to be achieved first and foremost by **public** production, to be owned and managed by municipal housing companies and let to renters on a non-profit basis. To that end, central, regional and local agencies were systematically coordinated. Organized interests on the production and consumption side in cooperative and public rental housing became one of the most important power resource bases for the Social Democratic party.

Norway's housing sector was thus geared towards 'market-strong' solutions, while Sweden's was less so. Looking at the housing policies of incoming Bourgeois coalitions will thus illuminate propositions about the interplay between 'market-strong' governments coming to power and facing legacies of comprehensive policies in concerted and/or corporatist institutional settings with quite different implications for privatization. Since Social Democratic governments have been back in power for much of the 1980's in both these countries, these cases will also provide illustrations to the dilemma for political actors presented by the 'scissors crisis' of the welfare state. How do they act when dislodging the welfare state from the housing sector would help solving the fiscal crisis, but could mean demolishing the power resource base?

GREAT BRITAIN; MAKING PROPERTY-OWNING FOR THE ABLE SAFE FROM DEMOCRACY

2.1 British Housing Goes Public; The First Labour Years, 1946-1951

British housing was severely damaged by the war. The number of homes destroyed was officially put at 218 000. Another 250 000 dwellings were made uninhabitable by the bombings. Even more important for shaping the postwar shortage was the virtual halting of new production. From 1939 and 1945 only 200 000 new homes were completed, whereas production under "normal" circumstances might have reached 1.75 million. The available housing stock in mid-1945 was about 11.35 million dwellings, to be compared to an estimated number of potential households two millions higher. As many as four million potential households may have lived in shared accommodations (Holmans, 1987:91 ff.).

A pre-election survey in 1945 found that 41 percent of the voters considered housing the most important issue. The 'caretaker' Conservative government stated as the first housing objective "a separate dwelling for every family that wishes to have one" (Holmans, 1987:151). After winning the 1945 elections, the Labour Party launched measures to build away the housing shortage which included **regulation**, **financing** and **production**. Their policy placed the public sector in a leading position. A key role was assigned to the Local Authorities. More generous subsidy schemes for public rental housing came in 1946. Local authorities were also allowed to borrow money on very generous terms from the Public Works Loan Board. The 1949 Housing Act required local authorities to provide 'general needs' housing, not just dwellings for the working class or people with special needs. Good quality council housing was built in unprecedented numbers, reaching 160 000 annually in 1948. In the first six years after the war, the share of households living in public rental housing rose from 12 to 18 percent (Short, 1982:155 f.).

The expansion of the public role was not, however, restricted to the production and ownership of rental housing. New legislation provided local authorities with possibilities to buy land for housing purposes. Regulation of land use was established in 1947. Plan-making and development control was given to counties and county boroughs. Public authorities could buy out the development rights from landowners through a government fund. Planning permissions must be obtained for any change of land use. No compensation was payable to landowners where

planning permissions were refused, and a betterment levy of 100 percent of the value gain would be charged before development (Ball, 1983: 201).

Historically, private renting had been the dominating tenure in Britain. It still comprised nearly three out of every five available units of housing in 1945. But the outbreak of war in 1939 also brought rent control, freezing rents at the 1939 level. Legislation enacted by the Labour government in 1946 set up rent tribunals in certain shortage areas to fix rents for furnished dwellings and provide security of tenure for tenants. Three years later, the control was extended throughout England and Wales, and rent tribunals were given authority to fix rents also for new dwellings (Short, 1982:177).

British landlords could not claim tax relief on mortgages, and had to pay tax on their profits - including any sum used to repay the mortgages. Rent control thus made competitive returns on investments in rental housing a bleak prospect (cf. Balchin, 1985:100 ff.). What turned out a long-term decline of private rental housing began. Landlords disinvested by selling off their property to owner occupation, disrepaired to cut costs, and withdrew almost totally from new rental production (cf. Forrest and Murie, 1988b:35). The sector's share of all housing went down to 53 percent in 1950, and to 46 percent in 1953 (Forrest and Murie, 1988a:248; Holmans 1987:169).

It must not be forgotten that the immediate postwar housing policy was implemented in an economic environment characterized by scarcity and a series of economic crises caused by Britain's weak export performance. Favouring the "plannable instrument" of local authority building, the Labour government maintained wartime controls on private building activity and the supply of materials. Between 1946 and 1951, four out of five new homes were in the public rental sector (cf. Table 2.1 below). But the economic crisis after 1948 had repercussions for building production. Council housing production went down, and standards were reduced (Malpass, 1990:47).

2.2 Striking another Balance; Conservatives Encourage Private Housing 1951-1964

Housing had been an important issue in 1945, and Tories took every opportunity to blame Labour for its 'failure' to cut out the housing shortage. A Gallup poll in 1949 found 61 percent dissatisfied with Labour's housing record. After winning the 1951 election, however, the Conservatives at first seemed to follow in Labour's footsteps. They relied heavily on **public production** to realize their 1950 objective of building 300 000 dwellings annually. Local authorities were to reach specified building targets, and the general subsidies to new dwellings were increased (Short, 1982:47). Thanks to the strong electoral support the program was implemented, despite internal opposition and a severe economic crisis in 1951-1952. Thus it came to pass that the first Tory years produced an all-time-high in council housing production, reaching around 225 000 units in 1953 and 1954. It should be noted that the large output was accompanied by lower standards (Whitham, 1982:24).

Once the 300 000-unit target for all new production was achieved, however, the

Tory inclination for private sector solutions led to a cutback in public involvement. Now "it was the local authorities which had to provide the flexible element in the programme when the managers of the economy needed to cut back investment and reduce housing subsidies." (Donnison and Ungerson, 1982:148). All 'normal' housing requirements would be met by the market, while public housing should take care of the needs of particularly 'market-weak' groups. Local authority housing should primarily deal with slum clearance and rehousing of former inhabitants and provide for 'special needs', e.g., for those squeezed out of the private sector (Holmans, 1987:153). Private housing, and owner occupation in particular, was seen as the main alternative for the majority of the population to get the housing they wanted.

Adhering to this doctrine the Conservatives shifted **financing** from general production subsidies to support for 'special needs'. This would make public rental housing more expensive to 'market-strong', and less expensive to 'market-weak' groups (cf. Malpass, 1990:89 ff.). Public financing of 'general needs' council housing was diminished, and totally abandoned in 1956. A new system of subsidies to council housing favoured the building of tower blocks rather than single-family or terraced houses (Holmans, 1987:330 ff.).

A government decree in 1955 introduced the idea of rent pooling within the council housing stock. Given the difference in historic costs, this in effect reduced subsidies through the "transference of existing subsidies from older to newer houses" (Malpass, 1990:66). Also the funding of local authority housing was changed. Instead of borrowing on preferential terms from the Public Works Loan Board, the local authorities from 1955 had to go to the capital market for investment money. This raised the cost of capital and thus the rents for new housing. Between 1954 and 1959 public housing production was cut in half, or to just over 100 000 units annually (Malpass, 1990:89 ff.).

Above all, Conservative housing policy was concerned with promoting owner occupation. "Of all forms of saving, this is one of the best. Of all forms of ownership this is one of the most satisfying to the individual and the most beneficial to the nation", stated the 1953 White Paper on housing. One strategy was **deregulation**; the licensing system used by the earlier Labour government to regulate private housing production was abandoned in 1954. The development charge on new production had been taken away a year before (Short, 1982:49). Another was **dispossession**; sales of council housing to owner occupation were encouraged as early as 1952, when the Conservatives decreed that local authorities would be allowed to sell their rental stock. Five years later, legislative measures further encouraged council house sales, and about 60 000 units were thus transferred to the private sector up to 1964 (Murie, 1975:51).

It is most notable that amidst all talk about 'normal' housing demands being met by the market, Tories gradually introduced measures which meant that the public sector partly **financed** owner occupation, and made investment in a home extremely competitive in the market for capital. Tax relief on mortgage interest was formalized in 1951. The taxation on imputed rent was abolished in 1963. There was never any tax on capital gain (Welham, 1982:139 f.). The building societies, who came to take the lion's share of financing owner occupation, were on several

occasions given government grants and preferential loans (Short, 1982:118). All these measures no doubt helped bringing about rapid changes in the tenure structure. Between 1951 and 1964, the share of owner occupation rose from 29 to over 45 percent (Short, 1982:50).

The Tory commitment to private enterprise also included private rental housing. More sympathetic to the arguments of private landlords against rent control, the Conservatives began using **deregulation** "to create conditions where consumer demand and investment yield would lead to a revival of the private rented sector." (Malpass, 1990:51). Legislation in 1954 enabled landlords to increase rents after having presented proof of recent improvements to their property. Three years later, new and more sweeping legislation took away rent control for dwellings with rateable values above certain limits (rates on dwellings are a main source of income for British local government). This opened up for rent decontrol of about 400 000 housing units in private renting. For dwellings below the stipulated rateable value, rent decontrol would be possible when present controlled tenancies came to an end (Short, 1982:177).

This part of the legislation opened up quite a few opportunities for private landlords to achieve 'decontrol by movement'. Abuse, harassment and other methods, summed up as 'Rachmanism', led to a growth of the number on uncontrolled furnished lettings in the vicinity of 800 000 between 1957 and 1964. This 'informal deregulation' meant that by the end of 1964, nearly half of the remaining private rental sector was no longer subjected to rent control (Holmans, 1987:414 ff.).

The preferential treatment of owner occupation was not quite compatible with the government's efforts to revive the private rented sector. Sales to owner occupation continued to scale off the size of private renting. In combination with the smaller output of council housing, there began to be real problems for the 'market-weak' to get accommodation, particularly in metropolitan areas. In 1964 nearly three million people in Britain were living in slum conditions (Short, 1982:54). Two and a half millions lacked a fixed bath or shower, and 1.6 million had no indoor WC (Holmans, 1987:139). Furthermore there was an exceptional rise, by historical standards, in household formation in the 1950's and 1960's. Would all this mean that the public sector might be "drawn ineluctably back into deeper involvement in the housing and town planning fields"? (cf. Donnison and Ungerson, 1982:153).

2.3 1964-1979; Political Shifts and Economic Crises, but a Gradual Residualization of Public Housing

At first, the initiatives of the incoming Labour government in 1964 seemed to answer that question in the affirmative. It immediately went on a course of rent **regulation**. The 1965 Rent Act gave security of tenure to most tenants in unfurnished accommodation, and introduced a new system of rent regulation for private sector tenancies not subject to rent control. With existing rents frozen at the

1965 level, new 'fair rents' were to be assessed by a rent officer and a rent assessment committee at three year intervals upon the application of the landlord or the tenant. During the next five years, 200 000 applications were received. A study showed that of 100 000 cases assessed, 62 percent resulted in rent increases (Short, 1982:179).

The new Labour government also seemed committed to increase housing production. The 1965 White Paper set a goal of 500 000 new dwellings annually by 1970. A new system of **financing** introduced in 1967 provided a general subsidy to local authorities, covering the interest paid in excess of four percent. The Labour government also used **regulation** to make higher housing standards mandatory in public housing. By 1967-1968, new public housing production was at its highest since the early 1950's, and central government subsidies increased by 83 percent from 1963 to 1969 (Malpass, 1990:103).

However, the early postwar enthusiasm for the 'plannable instrument' of local authorities was now ebbing out. In a housing environment approaching a home ownership rate of 50 percent, Labour now envisioned a even split between public rentals and owner occupation in new production. Furthermore, Labour's views echoed those of the Tories; public housing was more and more openly conceived of as a measure to help the 'market weak', whereas owner occupation was the 'normal' way of realising one's preferences in the housing market.

The economic crisis of 1966-1967 with the following devaluation of the pound came to have strong repercussions on housing production. In 1968 Labour announced that new public housing would be cut. The 1969 Housing Act favoured public financing of **private** rehabilitation over massive urban redevelopment through local authorities. The Act also set up General Improvement Areas (GIA's), in which owner occupiers could get public improvement grants. Public investment should be kept at existing levels. Because of the continuously increasing interest levels, this actually meant a decrease in new public housing production. By 1972, public sector completions down to under 100 000 units annually (Short, 1982:57 f.).

The counter-inflationary measures taken by Labour in the wake of the devaluation included strong measures to keep rents down. Already in 1966, the government's price and income standstill policy included rents. By 1968 and 1969, new legislation took away local authority power to raise rents without ministerial consent. At the same time, however, Labour's mid-1960's acceptance of means-tested rent rebate schemes now also meant an acceptance of local rent increases. By 1970, over 80 percent of public housing tenants in England and Wales rented from councils operating such schemes (Malpass, 1990:104 ff.).

The economic crisis thus quashed any long-term plan for housing the Labour government might have had when it took power in 1964. It is important to say "might have had", since it is clear that Labour was caught between a lingering esteem for public housing as a universal tenure and the political pressures mounting from growing owner occupation. For the incoming Tory government of 1970 this was not a problem. They continued the **financial** encouragement of private rehabilitation started by the 1969 Act. Maximum GIA grants were increased. Support for owner occupation continued, and even increased. Building Societies

were given grants to keep mortgage interests down to specified levels (Short, 1982:60). Local authorities were encouraged to sell houses for home ownership, and sales occurred in unprecedented numbers in the early 1970's (Murie, 1975:57).

At first glance, the 1972 Housing Finance Act seemed a piece of **deregulation**, making away with all rent regulations which hindered 'fair rents'. However, the Conservatives stiffly **regulated** local authorities in the continued attempt to further residualise public housing. Local authorities were in fact required to start procedures for setting 'fair rents' for all their dwellings within six months, and increases toward such rents began in October 1972. Local councillors could be ousted from office and replaced by a centrally appointed Housing Commissioner if they did not implement the Act (Malpass, 1990:120 f). Furthermore, the Act made rent rebate schemes mandatory for all local authority housing from the same date. The rebate would be 60 percent of the rent charged, and subject to means-testing which included income and dependency burden.

On the other hand, the Tories also used **financial** measures to shift the balance further towards housing consumption support to the 'market weak'. The 1972 Act set aside a rent rebate subsidy specifically earmarked for means-tested support to housing consumption. It would start with a very high share, and go down to 75 percent of the total cost of rent rebates by 1975-1976. The Tories' basic idea was to limit central government subsidies to the amount needed to balance the Housing Revenue Account in local authorities. Only those in deficit were eligible for subsidy. As was just shown, however, the Act included several measures to make local authorities balance these accounts. The government's projection was that by early 1980's, there would be no HRA deficits, and thus no need for subsidies of this kind. What is important to note in the construction of the 1972 system of housing finance is that it was intended in the long run to privatize all costs of subsidies to the 'market weak' to the tenants as a collective. Once rental income was raised enough to cover expenditure - a stipulation set out in the opening of the Act - then not only general government subsidies, but also rate fund contributions would be taken away (Malpass, 1990:116 ff.).

The new Labour government of 1974 maintained some of the Tory policies. They kept the emphasis on improvement rather than massive urban renewal. Four new types of public grants for such activities were presented, and the eligibility area was extended also to the worst parts of urban housing. Labour's own new contribution concerned council housing. They abandoned the fair rents policy for such housing in 1975, and again placed the rent-setting authority in the hands of local authorities. New interest subsidies were introduced to help keeping down production costs, and thus rents. In this regard, the Labour policy was a success; there was a 25-percent decrease in real rents up to 1978, i.e., a corresponding increase in the public **financing** of rental housing consumption (Malpass, 1990:131). Public sector completions rose to nearly 150 000 dwellings in 1977 (Holmans, 1967:363 ff.).

The rent and subsidy changes in 1974 were "avowedly a temporary measure to keep local authority housing finance going until longer lasting and thorough-going reforms could be made in the light of the fundamental review of housing that the government announced that it was setting in hand" (Holmans, 1987:363). But then

came the economic crisis. The oil price increase in 1973 and the downturn in world trade the following year added to Britain's already heavy burden of structural crises in key sectors and rising unemployment figures. Labour opted for cuts in the budget, and "when the axe of public expenditure control was wielded in 1975 the council house sector was seen as a suitable and available neck." (Short, 1982:159). What followed was a remarkable shift from production to consumption subsidies: Total public expenditure on housing declined by almost a fifth (19.0 per cent) between 1974-5 and 1978-9. Thus the programme which had increased fastest in the early 1970s, much faster than the general increase in public spending, declined at a faster rate in the rest of the decade. Total capital expenditure suffered the greatest reduction, being 35 per cent less in 1978-9 than in 1974-5. However,.....total subsidy on rent rebates rose by 36.4 per cent. (Malpass, 1990:130).

Some argue that the shifting balance of government expenditures on housing away from financing production to means-tested support of consumption was not part of conscious policy but rather "an accident" caused by the macro-economic developments in the 1970's (cf. ref. in Malpass, 1990:131). However, this comment concerns only direct public sector outlays for housing. The fact that cuts were directed towards public rental housing production amidst continued support to owner occupation through untouched tax deductions could be used to counter the 'accident' argument. For when the much awaited Green Paper on housing appeared in 1977, the rate of home ownership had reached over 55 percent. The Green Paper revealed that Labour had drawn some political conclusions from this development. The report spoke of owner occupation in terms resembling the most positive Tory incantations. A support lending scheme was now set up to help building societies accept border cases of lenders referred to them by local authorities. Furthermore, Labour did not interfere with tax deduction subsidies, which by 1977 were only some £ 250 million lower than all other housing subsidies together (Short, 1982:63). General support for home ownership thus sailed unharmed through the storms of changing political majorities and economic crises, while public housing provided the 'flexible element' when the economic situation "demanded" a cutback in housing investment. And whereas this brought out all the contradictions in the Labour housing policy (Headey, 1978:163 f.), it suited perfectly an ideologically revived Conservative party gearing up for the 1979 elections.

2.4 The Public-Private Mix in British Housing at the End of the 1970's; A Boundary Meandering through the Tenorial Landscape

By the end of the 1970's, the balance between public and private responsibilities in British housing had come a long way from that of the early postwar years. Public intervention in land use was essentially "negative"; planning regulations sanctioned or denied activities by the private sector rather than placing active powers in the hands of government (Johnson and Cochrane, 1981:17;cf. Duncan, 1989:162). Furthermore, administrative discretion limited the coverage and force of land use

Table 2.1 Completed Dwellings in the United Kingdom, 1946-1979, by Investor Categories

Period	Total Production (1000's)	Investor Category, in %		
		Private Owners	Local Housing Authorities and New Towns	Others*
1946-1951 (Labour)	1 041	18	79	3
1952-1964 (Tory)	4 041	44	53	3
1965-1970 (Labour)	2 369	51	46	3
1971-1974 (Tory)	1 279	57	39	4
1975-1979 (Labour)	1 501	50	43	7
Total	10 231	45	51	4

Sources: Central Statistical Office 1953:73; *ibid.*, 1963:59; *ibid.*, 1973:76; *ibid.*, 1983:72.

* Includes dwellings for certain government personnel and housing associations other than the Scottish Special Housing Association and the Northern Ireland Housing Trust.

plans. Studies from the 1970's indicated that of "land granted permission for residential development in areas of high demand, less than half had been designated for residential purposes in land-use plans" (Ball, 1983:200).

Despite the record on land control, the public sector held a leading position in new production for the first 20 years after the war. As Table 2.1 shows, over half of all new dwellings built after the war and up to 1979 were in the public rental sector. The Labour efforts after 1974 to increase local authority building show up in the table. Table 2.1 also shows a growth in the country's private housing production. In principle, this does not necessarily entail a retreat in terms of public involvement. However, British private housing in the 1970's had become synonymous with owner occupation, where production was dominated by speculative housebuilders, and the financing by the Building Societies. In fact, "such a clear situation of one dominating form of owner-occupied housing does not exist anywhere else in Europe" (Martens, 1985:610).

The public rental production upsurge caused by the Labour government policies of the mid-1970's was coming to an end. In 1979 - the year of shifting the guard - public sector production's share of completions sank to just over one-third. Output figures declined in absolute terms from 1978, beginning a long-term decline in the production of new public rental housing (cf. Table 2.3). Still, the local authorities owned and managed about one-third of the total housing stock in 1979 (Central

Statistical Office, 1983:111). Since the access to public rental housing was subject to means-testing, the public sector in effect also controlled one-third of all housing allocation in Britain (cf. Gallagher, 1982).

The public role was thus concentrated to two areas. One was the production, ownership and allocation of rental housing through the local authorities. The other area was housing consumption. Central government provided general subsidies to home ownership through tax subsidies, and central and local levels provided means-tested supplementary support to renter households.

The postwar production of British housing was dualistic in terms of finance. The private sector building was predominantly for owner occupation. The financing was almost exclusively private, and dominated by the Building Societies. In 1974 these societies provided loans to roughly 70 percent of all new private production. The share in 1979 was well over 80 percent (The Building Societies Association, 1989:36). The so-called option mortgages - introduced in 1967 to help low-income households become homeowners through public coverage of part of the interest - covered 20 percent of the mortgages in 1972, but fell to much smaller proportions by the end of the decade (Short, 1982:56). A tiny proportion of the owner-occupied sector, or about one percent, received public improvement grants in 1979.

The financing of public rental housing underwent several changes during the postwar period. Support to new dwellings oscillated in terms of size as well as preference for housing types, and period of subsidization. It is thus somewhat difficult to establish the degree to which the 1979 stock of public housing had been touched by production subsidies. By and large, however, all production with the exception of the years 1973-1975 may be counted. This indicates that roughly 95 percent of the postwar production of public rental housing had received production subsidies in one form or another (cf. Table 2.1 above, and sources).

Since production subsidies were given to public rental and housing association dwellings in 1979, such subsidies may have touched two out of five new dwellings in that year (Central Statistical Office, 1984:72). In England and Wales, national government subsidies to local authority Housing Revenue Accounts, and local rate fund contributions comprised £ 1.27 billion, or 40 percent, of the income on those accounts in 1979 (Holmans, 1987:367).

The main public involvement in financing concerned housing consumption. Homeowners had a general right to tax relief through deduction of mortgage payments up to a maximum of £ 30 000, regardless of their income. By 1979, about three out of five homeowners had deductible mortgage interest payments (Ball, 1983:273; cf Forrest and Murie 1988a:262) The tax relief going to them was about £ 1.45 billion. Subsidies to option mortgage holders as £ 190 million, leading to subsidies to mortgaged homeowners of about £ 1.64 billion (Holmans, 1987:277).

Tenants in public and private renting could get individual rent subsidies only after means-testing. In October 1979, just under one million public renter households received rebates, averaging £ 190 per year. The corresponding figures for rent allowances in the private sector were 200 000 and £ 185, respectively (Department of the Environment, 1983:126). In terms of uptake/eligibility, this represented 40 percent in both sectors (cf. Balchin, 1985:161; Short, 1982:188). Seen in terms of

percentage of all tenants in each sector, however, we arrive at public involvement figures of 14 and 7 percents respectively. All together, 12 percent of British tenants received consumption benefits through rent subsidies directed at households.

We may now summarize the public-private mix in British housing at the end of the 1970's, before the Conservative gain of power. What is remarkable is the dualism one can detect in the existing pattern. The public sector was comprehensively involved in the provision of rental housing through the ownership, allocation and subsidies to production and consumption of local authority dwellings. Similarly to the Netherlands and Sweden, however, the actual production of such dwellings was left to private contractors, with the public landlords acting only as investors. It should be noted that the British system of financing consumption was based on a different view of public housing's role than the official one in those countries.

Council housing had been reduced from the early postwar status of housing for 'all' to a tenure for the 'needy'. Consumption subsidies were means-tested, and allocation based on criteria of need. How different the involvement in owner-occupied housing; tax subsidies befell the owner of the house, regardless of that owner's ability to pay. Thus the differences in coverage of consumption subsidies among the tenure groups are large.

Figure 2.1 The Public-Private Mix in British Housing in 1979: The Extent of Public Responsibility for Main Activities

Activity	Object	Extent of Public Responsibility
Regulation	Housing Production	Public control of location through formal planning permission requirement for all housing development, but 50% of housing in high demand areas deviate from formal plan requirements
	Housing Consumption	Local authority control over allocation through means-testing of all applicants for public housing, and of price through rent-setting powers (i.e., covering 32% of stock)
Financing	Housing Production	Interest subsidies to 21% of new housing (= all new public housing), and improvement grants to less than 1% of all housing
	Housing Consumption	Tax deductions on mortgage interest for 60%, and option mortgage subsidies to about 10% of home owners (about 37% of all households)
		Means-tested central government rent subsidies to 12% of all renter households (5% of all households)
Production		Local authorities acted as investors in 21% of new production and owned 32% of postwar stock (23% of total stock)

Finally, the 1979 border between public and private in housing was under siege. Labour was converging on the Conservatives in the favourable view of owner occupation, and clearly did not want to touch tax subsidies. The Labour bill on housing presented just before the 1979 elections went a long way towards accepting the Tory views of 1972, i.e., that more and more of the housing costs in the public sector should be privatized to the tenants through increased rents. One author argues that Labour "actually set up the network of controls on capital spending, and the outlines of a public sector subsidy system which provided the Thatcher governments with the tools they need for their version of the reform of housing finance." (Malpass, 1990:134).

2.5 The Institutional Setting of British Housing by 1979; Autonomous and Decentralized Bureaucracies in a Pluralist, Non-Mobilized Policy Network

The changes made or contemplated by different political majorities should thus not obscure the overall trend towards dualism in British housing. The private sector was becoming more and more synonymous to owner occupation. Production in the private sector remained untouched by public policy. Financing of production was private, planning regulations were evidently negotiable, and the regulation of production volumes was determined by speculative builders' judgments of effective demand. The only notable public involvement was the financing of homeowners' housing consumption through tax subsidies available to all mortgage holders. In contrast, the public sector was involved in local authority housing through its roles as (a) investor, owner and manager, (b) regulator of household access, and (c) through its financing role in both production and consumption, where the latter was predominantly selective and means-tested.

Theoretically, this dualism provided for two main alternatives of privatization. First, the public sector's role in local authority housing could be reduced, either through dispossession of dwellings and deregulation of access, or by def financing the production and/or consumption of public renting. Second, central government could def finance housing consumption in the private sector by taking away the homeowners' right to tax deduction of mortgage interest. As was said in the introduction, however, privatization policy preferences of both 'market-strong' and 'market-weak' parties are confronted by institutional features in the housing sector, and by constituency configurations, which make certain alternatives politically difficult to implement.

Let us first look at the **dispossession** alternative, i.e. the sale of rental dwellings owned and managed by the local authorities. No less than one-third of the housing stock, or 6.8 million dwellings, was in public ownership in 1979(cf. Table 2.2). Furthermore, a government intent on increasing home ownership through sales of public housing would have greater opportunities in Britain than in the other countries because of the structure of that stock. As many as two-thirds of local authority dwellings were in detached, semi-detached or terraced housing, and thus compatible with the stereotyped view of what constitutes an owner-occupied house

Table 2.2 Stock of Dwellings by Tenure, United Kingdom, 1950-1979 (some years)

Year	Type of Tenure, and Percentage Share		
	Owner Occupation	Public Renting	Private Renting
1950	29	18	53
1960	42	27	32
1964	46	28	26
1970	50	30	20
1974	53	31	16
1979	55	32	13

Source: Headey 1978:103; Balchin 1985:207

(Forrest and Murie, 1988a:250).

However, a national dispossession policy could infringe on the powers of the local authorities, who own and manage the dwellings. Although "they have no general competence to act for the benefit of the populations within their jurisdictions" like their Norwegian or Swedish counterparts, the dependence of British local authorities on "specific statutory powers conferred on them by Parliament....does not mean that their discretion in policy-making is always....subject to the overriding control of central government." (Johnson and Cochrane, 1981:12).

Under the Local Government Act of 1972, local authorities had general competence to spend certain amounts on any matter deemed advantageous to the local area and its residents, and not otherwise expressly forbidden. This made it possible for authorities to subsidize rents, rates and other costs. Local authorities had two own sources of income. One was the rates levied on property. The other comprised fees, charges, sales receipts, income from capital and the like. From the late 1940's to the end of the 1970's, their share of local government revenue decreased to 24 and 30 percent, respectively. Central government grants increasingly supported the local authorities, and the share of Exchequer grants in local budgets reached 46 percent by 1977-1978. From the viewpoint of local autonomy in decision-making, it should be noted that the largest central government grant - the Rate Support Grant - was paid as a block grant. Once it entered the local authority's accounts, it was up to the local council to determine its use (Johnson and Cochrane, 1981:25).

Within the local council, a stable structure determined much of the spending. Local government responsibilities were generally divided into two main categories, strategic ones and those directly geared towards service provision. The former were usually entrusted to the county level, while service functions such as housing were carried out at the district level. The major services were "normally run as a separate department of the local council. Most departments reported to one committee only and most committees were concerned chiefly with the work of 'their' department", indicating that local government was "characterized by a fairly high degree of functional compartmentalization", and that existing services were "firmly established

in the pattern of local spending" (Johnson and Cochrane, 1981:24).

This institutional structure of local government and thus public housing meant that the dispossession alternative of privatization would be dependent for its implementation on specialized entities at the local level, many of them with differing political views and vested interests in the established order. On the other hand, it was already an established policy that central governments could interfere in local housing responsibilities. The 1936 Housing Act had empowered local authorities to sell council houses upon Ministerial permission. Postwar Labour majorities used the power of central government to hinder or restrain such sales, while Tory governments encouraged sales through relaxing central regulations (Murie, 1975, *passim*). And as shown earlier, the Tory's Housing Finance Act of 1972 made it possible to fire local administrators if they did not implement the policy of 'fair rents'.

The alternative of public **definancing** of council housing had been tried by the Conservatives in the 1972 Act. Through its power to set rules for local authority Housing Revenue Accounts, central government could force local authorities to balance those accounts through rent and rate increases. At the same time, rent rebate schemes directed at those in need were made mandatory. However, subsidies to these rebate schemes were to gradually diminish in importance. The long-term perspective seems to have been that the costs of consumption and production would increasingly be borne by the renters themselves, especially by the 'market strong' ones. They would then move to owner occupation. Thus, the technique of definancing was already there; only the political majority to exploit it was needed. What, then, about the alternative of definancing home ownership by cutting the tax subsidization? Some figures may further illuminate the possible consequences of this alternative. First of all, such a move would touch 55 percent of the British households. Taking away the right to mortgage interest deductions would earn the Exchequer about £ 2.1 billion, with an average loss of £ 200 for homeowners with mortgages. Putting a capital gains tax on house sales would effect house prices, which would in turn have important effects on personal wealth. No other source of wealth came anywhere near housing in importance; the value of wealth held in dwellings had increased eight times since 1966, and formed about 40 percent of the net marketable wealth of British individuals around 1980 (Central Statistical Office, 1984:78). With nearly 11 million homeowners potentially affected by such fiscal measures, electoral considerations would play a central role in the parties' calculi.

Definancing homeowners' housing consumption would also have repercussions on the key institutions in that tenure's structure of housing provision. The Building Societies drew about one-fifth of the total assets in personal savings institutions. They held a share of 82 percent of all loans to home purchases in 1979. House-builders producing for the owner-occupied market represented about six percent of total employment in 1979. The unemployment rate was double that of the general labour force (Balchin, 1985:16). About 40 percent of private speculative housebuilding in 1978 was done by firms employing less than 100 workers. Of the 8 300 firms active in that year, the roughly 200 employing more than 100 workers stood for 60 percent, or 87 000 of the private sector units produced for sale to prospective

homeowners (Ball, 1983:54). On the other hand, as much as 40 percent of the production value for the smallest firms came from building private homes (Dickens et al., 1985:105).

In summing up the possibilities and problems facing a government intent on privatization in British housing, it is notable how previous policies and institutional features combined with constituency trends to narrow the options. As already noted, the alternative of defunding and depossessing in the public rental sector had already been tried once; a privatizing majority would thus have the power and the techniques to do it again. If doing so, a privatizing government might also take into account the rather weak organization of tenants in Britain (cf. Hague, 1990). On the private sector side there were much stronger players, such as the Building Societies Association and the National Federation of Building Trade Employers (cf. Short, 1982:10, 113).

Then there was the problem of political constituencies. Opening up a whole new market for home ownership by making council housing available on the market would greatly satisfy public opinion. Surveys in 1978 showed that 72 percent of British households had a preference for owner occupation, whereas only 19 percent said they wanted to live in public rental housing (Forrest and Murie, 1988b:123). It is reasonable to assume that this preference to a great extent built on the existing economic realities of home ownership. To reap the political benefits of that opinion, a privatizing government would thus have to pave the gateway to the Eden of 'property-owning democracy' with promises not to touch the tax benefits of owner occupation.

2.6 "A Giant Stride" towards "Property-owning Democracy"; Thatcherism and Housing in the 1980's

Already in the 1974 elections, the Conservative spokesperson on the environment, Margaret Thatcher, had outlined the future Tory policies on housing. She promised low mortgage interest rates and a bill to enforce the sale of public rental housing to owner occupation. She stressed that these promises were not subject to negotiations. And after the victorious 1979 elections - where housing played a crucial role in enlarging the Tory constituency - the new Prime Minister, Mrs. Thatcher made the following statement during the debate on the Queen's Speech:

We will give to every council tenant the right to purchase his own home at a substantial discount on the market price and with 100 per cent mortgages for those who need them. This will be a giant stride towards making a reality of Anthony Eden's dream of a property-owning democracy. It will do something else - it will give to more of our people that freedom and mobility and that prospect of handling something on to their children and grandchildren which owner-occupation provides (quoted in Forrest and Murie, 1988b:54 f.).

The shift towards a more 'market-strong' emphasis in housing policy, leaving a merely residual role for public involvement, was put in plain and unmistakable terms by Michael Heseltine, the new Conservative Secretary of State for the

Environment:

We intend to provide as far as possible the housing policies that the British people want. We propose to create a climate in which those who are able can prosper....In terms of housing policy, our priority of putting people first must mean more home ownership, greater freedom of choice of home and tenure, greater personal independence, whether as a home owner or tenant, and a greater priority on public resources for those with obvious and urgent need. (cf. Forrest and Murie, 1988b:66).

The policy measures taken from 1980 onward have meant a dramatic change in the public-private mix of British housing. Above all, the Tory strategy has rested on three pillars; (a) **dispossession** of public rental housing, i.e., council housing, (b) **definancing** of production and consumption in public, but not private, housing, (c) **regulatory** measures to make sure central government sales and financing policies are implemented locally, and (d) **(de)regulation** to 'free' the private rented sector.

The introduction of the Right to Buy principle in the 1980 Housing Act radically changed the dispossession game. Local authorities would no longer have the power to initiate or stall privatization of council housing. The initiative was now vested in the individual households in such housing. They were given a legal Right to Buy, and the local authority was forced go ahead with the sale whenever a 'secure tenant' decided to exercise that right. The 'secure' qualification comprised all tenants having rented a separate housing unit from local authorities or New Towns for three years or more, using it as his or her principal home.

Buying tenants also got a legally guaranteed right to a mortgage from the selling authority, usually amounting to 2½ times the income of the principal purchaser plus once the incomes of maximum three additional buyers, but in special cases going up to 100 percent of the sales price. The Conservative intention to spread home ownership was evidenced by the very generous rules for rebates on the assessed market value. This rebate would vary from 33 percent for three-year tenants to 50 percent for households having rented the unit for 20 years. Buying tenants could now also resell their homes. They would, however, be subjected to (a falling) capital gains tax for the first five years after their use of the Right to Buy (Lundqvist, 1986b:87 ff.).

The Conservative government took some time to reveal its plans for **definancing** the housing sector. In early 1980, however, its basic expenditure plans for the next four years revealed that while total public expenditure would be trimmed by 4 percent, as much as 90 percent of these cuts would be in housing. Total expenditure on housing would be down from £ 5 to £ 2.8 billion between 1980 and 1984 (Short, 1982:67). To reach this, the government (a) abandoned the fair rent principle; (b) abolished the non-profit rules of local Housing Revenue Accounts, and (c) tied actual subsidies to assumed movements in 'notional' Housing Revenue Accounts.

Under the system of 'notional' HRA's, the future subsidy for each local authority would be calculated according to the formula BA (base amount) + HCD (housing cost differential) - LCD (local contribution differential). BA was the subsidy amount received in the previous year, starting from 1980/81. HCD was the amount by which 'reckonable' HRA expenditure exceeded that of the previous year. In essence, this

meant capital expenditure by local authorities on new housing eligible for subsidy, and the annual determination made by the Secretary of State for uprating 'reckonable' expenditure on management and maintenance. LCD was the amount by which the local authority's 'reckonable' income exceeded that of the previous year. This was decided annually by the Secretary of State as his assumptions about how much local authorities should raise rents in the next fiscal year (McCulloch, 1982:98). Politically, this was a masterpiece of regulation because it

combined powerful leverage of rents with avoidance of damaging public confrontations with defiant local authorities: the system avoided instructing local authorities to raise rents by a certain amount, thus leaving them with some semblance of discretion, whilst at the same time putting them in a position where a response more or less in line with the centre's aspirations was hard to resist. (Malpass, 1990:138 f.).

But the Conservatives had already shown that they were prepared to go even further in regulating local authorities into compliance. The 1980 Housing Act limited local variation in the Right-to-Buy program by allowing the Secretary of State to determine procedures for mortgages to buying tenants, and empowering central government to take over policy implementation from procrastinating local authorities (cf. Ascher, 1983). That the Tories would actually do so if they saw it necessary is revealed both in the Parliamentary debate and in the confrontation with the Norwich City Council in 1981-1982 (Forrest and Murie, 1988b:205, 210 ff.).

The efforts give new life to the private rental sector by means of (de)regulation including 'short-hold' tenancies, providing security of tenure for more than one, but less than three years, as well as wider grounds for eviction of tenants. Furthermore, there would be more frequent determination of fair rents, and controlled tenancies would be changed into only 'regulated' ones (Short, 1982:66).

The changes brought about by these Tory measures have been quite remarkable. First, the dispossession of council housing changed the tenure structure, as did the emphasis on 'special need'; new production in the public rental sector shrunk to all but a marginal role. Second, the new system of financing the public rental sector redistributed costs not only between the public purse and the individual households, but also within the public sector, and led to a very distinct socio-economic tenure pattern.

Several measures were taken in the 1980's to further finance sales to sitting tenants (cf. Malpass, 1990:16), and nearly 1.5 million units were sold off to such tenants during the 1980's. Since over 90 percent of these units were in detached, semi-detached or terraced housing, it goes without saying that the share of high-rise, tower block housing increased in the public rental stock. From the mid-1980's, the Thatcher Government furthermore legislated to make possible the sale of whole blocks to private landlords, as well as the establishment of Housing Action Trusts to take over council housing estates deemed too problematic for the local authorities to deal with. Over 150 000 dwellings were sold off in block schemes by 1987, and a first set of Housing Action Trusts was planned to take 24 500 units out of local authority ownership in 1988 (Malpass, 1990:16 f.).

Table 2.3 Public Sector Completions and Council House Sales to Sitting Tenants in the United Kingdom*, 1980-1989

Year	Local Authority Completions (1 000)	Sales (1 000)	Changes in Stock (Completions - Sales)
1980	88	90	-2
1981	68	116	-48
1982	40	217	-177
1983	39	146	-107
1984	37	124	-87
1985	30	161	-131
1986	25	105	-80
1987	21	128	-107
1988	21	187	-166
1989		200	
Total	369	1 474	

Sources: Balchin 1985:198; Central Statistical Office 1990a:51; Department of the Environment December 1986, Part 2:18, and March 1990, Part 2:18).

* Sales after 1983 Great Britain only.

Table 2.4 Public Financing of the Housing Sector in the United Kingdom, 1980-1988. £ million

Fiscal Year	Central Government			Local Authorities		
	Subsidies to Local Authorities	Capital Grants to Home Improvement	to Housing Associations	Tax Relief*	Investments	Subsidies
1980-1	1 689	178	535	2 168	1 432	537
1981-2	1 064	269	471	2 292	287	553
1982-3	567	561	607	2 456	61	584
1983-4	417	1 214	983	2 767	794	649
1984-5	451	982	940	3 500	1 016	620
1985-6	554	641	927	4 500	1 151	562
1986-7	513	584	894	4 500	948	542
1987-8	548	585	929	4 750	999	490
1988-9	587	509	927	5 500	-18	471

Sources: Central Statistical Office, 1990a:49; *ibid.*, 1990b:93; Welham, 1985:32; Malpass, 1990:20; Forrest and Murie, 1988:91)

* Tax relief on mortgage interest only

One might have expected that the local authorities would funnel receipts from sales - estimated at £ 9 billion between 1980 and 1986 (Forrest and Murie, 1988:10) - into new production. However, central government used regulation to limit this

possibility; by 1986, local authorities could use only 20 percent of receipts for housing investment (Malpass, 1990:19). No wonder, then, that the production of new council housing went down throughout the 1980's. The 1988 public production of 21 000 dwellings was one-fourth of that in 1980, and represented only 9 percent of total production in 1988. Production for private ownership then took as much as 85 percent of all new housing, having increased in absolute terms from 130 000 to over 190 000 units annually (Central Statistical Office, 1990a:51).

As Table 2.4 shows, dramatic changes occurred in the structure of housing finance. Public financing of rental housing diminished in absolute terms, while grants to (mainly private) housing improvement increased (Papadakis and Taylor-Gooby, 1987:149; cf. Forrest and Murie, 1988:92), as did support to the voluntary Housing Associations. The largest increase, however, occurred in the tax relief to home ownership. It is important to note that this support was *general*; every owner with a mortgage was entitled to tax deductions without regard to household incomes or needs. It should furthermore be noted that Table 2.4 does not include the indirect support to home ownership through exemption from capital gains tax.

Table 2.5 further illustrates the Conservative use of *definancing* to make public rental housing a tenure almost exclusively for 'market-weak' households. General subsidy dwindled, while rents increased even more than the ministerial determinations under the 'notional' Housing Revenue Account system. While all local authorities were in receipt of subsidies in 1979, only 25 percent were in that category in 1985-1986 (Malpass, 1990:147).

All these factors combined to change the socio-economic pattern of housing tenure. The share of home owners rose to 63 percent in 1987, while the share of

Table 2.5 The British National Housing Revenue Account, 1980-1 to 1988-9. Distribution in Percent

Fiscal Year	Central Government Subsidy		Net Rent	Rate Fund Contribution	Interest	Others
	General	Rent Rebate				
1980-1	31	8	37	13	-	11
1981-2	18	8	52	10	6	7
1982-3	9	13	52	9	9	9
	Exchequer Subsidy	Housing Benefit				
1983-4	7	31	35	9	9	9
1984-5	7	33	33	9	9	9
1985-6	6	35	32	5	11	11
1986-7	7	35	32	8	11	6
1987-8	8	36	31	9	10	6
1988-9	7	36	33	8	10	6

Source: Malpass 1990:150

households in private renting fell to 9 percent. The Right-to-Buy and block sales, in combination with dwindling new production, decreased the share of public renters from one-third to one-fourth between 1980 and 1987 (Boléat, 1989:9). The share of tenants relying on housing benefit was two-thirds by the end of the 1980's (Malpass 1990:184); the number of receivers reached over 4 million households in 1988 (Central Statistical Office, 1990b: 133).

The Tories have, however, not rested on their laurels. The 1988 housing legislation showed the Conservatives' intent to further **regulate** and/or **deregulate** to make local housing authorities "a landlord of last resort" (Kintrea, 1990:18). The so-called **Tenants' Choice** gave council housing tenants the right to opt for another landlord or to convert an estate into a cooperative. Rent regulations were abolished for all private renting, and the power of the landlord in relation to tenants increased (Boléat, 1989:12). Local Housing Revenue Accounts will be 'ring fenced', to prohibit cross-subsidizing new production from rent receipts. This means a much tighter central control of local housing income and expenditures, and a transfer of surpluses to central government rather than to the local rate payers (cf. Malpass, 1990:169 ff.).

2.7 Explaining the British Pattern; A Single-minded Ideology in a Favourable Setting Creates A House Divided

The changes during the 1980's in the public-private mix in British housing have thus been nothing but remarkable. Through **definancing**, the Thatcher government almost nullified general subsidies to public production. The bulk of remaining public subsidies have been redirected to means-tested housing consumption benefits for households in need. This **definancing**, combined with the conscious use of **regulation** to circumscribe local and increase central government control over public housing production, has been instrumental in bringing down new local authority housing to its lowest peacetime levels since 1925 (cf. Whitham, 1982:20). Regulations have also been used to ease **dispossession** of local authority housing, which has led to a loss of 1.5 million public rental dwellings to owner occupation and perhaps 200 000 units to private renting. With regard to rents, the Thatcher government has used **regulation** to force local authority rents to increase towards market levels, but **deregulation** to revive the private rental market. Throughout this period of change, the public sector has **financed** home ownership. Tax deductions have been in place for mortgaged owners, and massive rebates on council house sales prices have been smoothing the way for new owners.

But why did the changes in the public-private mix in housing take this turn in Britain? Why was there this concentration on the rental sector, using **definancing and dispossession of public housing** on the one hand, and **regulation of public/deregulation of private renting** on the other? Was it a result of the fiscal necessities posed by an ailing economy, or of the most elaborate 'neo-Liberal', 'market-strong' ideology ever gathering enough political power resources to become official policy?

As for the economic argument, it is certainly true that cuts in welfare state

expenditures were instituted already under the 1975-1979 Labour government. But they were made in the wake of the sterling crisis, and after pressure from the International Monetary Fund (Flynn, 1988:291). And it is important to note that Labour took steps to protect public renters from the repercussions of the financial crash program. Rents were frozen in 1974, and in the following years kept down to reach "a historically low level in relation to both costs and wages" in 1979 (Malpass, 1990:131).

The Conservatives, on the other hand, "cut expenditure on council housing with enthusiasm as part of their wider goal of rolling back council housing in favour of owner occupation." (Hamnett, 1987:211). What is more, the Conservatives early on singled out housing as a main target for cuts, while allowing traditional Conservative pets as defence and law and order - and even some welfare services - to expand (see Table 2.6).

If strictly economic motives were behind the Tory move to cut expenditures, Mrs. Thatcher and her cabinet could certainly have been expected to look seriously at the drain on fiscal resources caused by the tax relief to homeowners. That this was not done further illustrates the importance of ideology in explaining the patterns of change in the public-private mix in British housing. As was shown earlier, the expressions used by both Mrs. Thatcher and Mr. Heseltine upon reaching power in 1979 revealed a strong ideological bias towards home ownership. This was a theme reiterated throughout the 1980's. Mrs. Thatcher said in 1983 that she was "desperately trying....to create one nation with everyone being a man of property", and her next minister of housing stated in 1985 that "we should set no limit to the opportunity for owner occupation in Britain." (quoted in Hamnett, 1987:217).

Underlying these statements seems to be the strong Tory belief in owner occupation as fostering independence and self-reliance, i.e., 'market-strong' attitudes. But owner occupation also gives the homeowner a stake in the system. It provides resources to become strong in the market, which in turn is presumed to commit people to social stability and 'sound' government, where the latter stands for individual freedom and well-functioning markets. In the Conservative view, favouring home ownership is thus equal to nurturing a prospective - and growing -

Table 2.6 Public Expenditures on Certain Functions in the United Kingdom, 1981-1989, in 1987-88 Prices. £ billion

Function	Fiscal Year		
	1981-2	1985-6	1988-9
Defence	16.9	19.5	18.1
Law, order and protective services	6.0	6.9	8.1
Education and science	19.5	19.1	21.2
Health and personal social services	21.4	22.5	25.4
Social security	39.7	46.5	46.3
Housing	5.7	4.4	3.0

Source: Central Statistical Office 1990b:106

future constituency of 'market-strong' voters (cf. Boyne, 1984).

Is there evidence as to the tenability of this 'power resources' explanation? As we have seen, the share of homeowners increased to two-thirds of all households during the 1980's. However, the constituency potential was much greater. Several polls showed that around three-quarters of those polled had a preference for home ownership (Forrest and Murie, 1988b:123). Furthermore, all those living in owner occupation could be viewed as potential bearers of the above-mentioned values. Indeed, the share of voters from the owner-occupied sector has been estimated to 73 percent before the 1987 elections (Rose and McAllister, 1990:76).

Still, students of voting behaviour dispute the importance of housing tenure for voting. One line of argument holds that tenure is mainly an extension of class. Another states that housing tenure creates specific interests, or consumption cleavages, with an importance regardless of class position. Third, tenure choice may be an expression of already ingrained social attitudes, rather than fostering such attitudes (cf. Heath et al., 1985:45 ff.; Franklin, 1985:67 f.; Rose and McAllister, 1990:78).

There has, however, been a consistent relationship between home ownership and support for the Conservatives, and between council house renters and Labour voting (Robertson, 1984:33 f.). This relationship holds also when controlling for class (Heath et al., 1985:46). In the 1987 elections, there was an absolute majority for the Conservatives among owner occupiers. In the middle class, the Tory share of votes was more than four times as large as that of Labour. Working-class homeowners were 22 percent more likely to vote Conservative than working-class tenants in council housing. A further implication for the Conservative 'power resources' calculus came from the General Household Survey, which showed that likelihood to buy was associated with 'market-strong' socio-economic position (Duke and Edgell, 1988:14).

On the other hand, the British electoral system in effect means that a policy of favouring home ownership through council house sales in order to gain more political 'power resources' "can only work if new home owners were previously Labour". However, earlier tenants who had exercised their Right-to-Buy were only 15 percent more likely to vote Conservative than those who remained council tenants. Given the small size of this group within the whole electorate, the "net effect has been to boost the conservative vote by about one percent and to reduce the Labour vote similarly". Further efforts to expand home ownership - as evidenced by the increased sales rebates in 1986-1987 - are "likely to be a diminishing marginal advantage" for the Conservatives, since the Labour dominance among remaining, and mostly 'market-weak', council tenants is relatively strong (quotes from Rose and McAllister, 1990:78).

But the fact remains; Conservative housing ideology, as materialized in policies of **public rental housing dispossession** and **continued public financing of owner occupation**, has made it possible "for the able (read the 'market-strong'; author's comment) to prosper", which has provided the Tories with a broadened 'power resources' base. In turn, this has been interpreted as a mandate to continue the policy of **regulation/deregulation** to break public renting, and to revive the ailing

private rental sector. This has further 'residualised' the 'market-weak' in the Labour-dominated public rental sector, and broken the power of local housing authorities. But why is it that even if this ideologically driven policy has meant "a significant deterioration of housing opportunities for a substantial section of the population, there has not been any widespread discontent or organized protest", like that over the poll tax (cf. Flynn, 1988:289)? In other words, how did the institutional structure of British housing interplay with Conservative ideology to produce the new public-private mix?

There is indeed a closer link between 'power resources' and institutions in the British system than in the other countries. The electoral system with relative majority in single-member constituencies has tended to form a bi-polar party system. Once a majority of the seats in Parliament is won, the winner takes it all; there is no need for accommodation of other views, as is shown to be the case in, e.g., the Netherlands.

What happened in the 1970's and 1980's was a further polarization of Tory and Labour positions. However, this put Labour in a dilemma. "The unique association between council housing and the Labour Party, which....has been of considerable electoral advantage to them" would of course inflict losses on Labour as the continued Thatcher housing policy diminished the "significance of public sector housing" (Williams, 1988:10). Since "Labour drew more votes from owner-occupiers than from council tenants" (Rose and McAllister, 1990:78), its chances of gaining a majority in Parliament were not only diminishing with public rental sector retrenchment, but even more so if Labour were to adopt a strategy that could be interpreted as going against the interests of the 'market-strong' majority of the electorate, i.e., the home owners (cf. Flynn, 1988:307 ff.). Thus, the institutional features of the British electoral and parliamentary systems reinforced the 'power resources' calculi in the direction of a pro-'market-strong' view on housing also in the Labour party. The effect was that one of the main outlets for the "organised protest" Flynn looks for was politically muffled.

Other institutional features help explaining further the remarkable record of the Thatcherite privatization policy for housing. Although local government builds on popular vote, its authority is mainly derived from specific powers conferred through central legislation. A majority in Parliament can thus circumscribe or expand local power without hindrance of a written constitution. It is true that local authorities "have resources to resist or evade central-government attempts to fetter their discretion", and that they did try to find ways around the tight regiment of the 'notional' HRA's. But the British local authorities were weakly interrelated and fragmented, and there were no institutionalized policy links between central agencies and local authorities of the kind found in, e.g., Sweden. Thus, the Conservatives have been able to continue the "'limbo-dancing' relationship with local government, always lowering the bar when the local governments somehow get through" (Malpass, 1990:189). The measures to "weaken and reform public monopolies, and to break down vested interests" have continued and the Thatcher government "has not been irrevocably harmed in national elections by its removal of local autonomy" (Travers, 1989:20).

To this should be added the compounding effects of the economic and housing market developments on the one hand, and the geographical distribution of Tory and Labour votes on the other. The Conservatives have become "absolutely dominant in the more prosperous southern part of Britain whilst the Labour Party [is] in a similar position in the depressed northern parts of England and Scotland" (Smith, 1990:373). Thus, the Conservatives could generally count on a more understanding attitude from local authorities in areas where both the **dispossession** and the **rent regulation/deregulation** policies seem adapted to the development in the housing market.

Finally, one must not forget the importance of the **pluralistic** configuration of organized interests in British housing. Unlike Sweden, both the public landlords and the council tenants lacked strong organizations at the national level, who could put pressure on the Tory government. The dispossession policy diminished the numerical strength of the tenant vote, and because of the process of 'residualization' and concentration of 'market-weak' households in public renting, probably also much of its political activism. The regulation of local authorities effectively cut council housing production, thus also diminishing much of the support local authorities may have been able to muster among the highly fragmented building firms and contractors in Britain. Instead, the mainly speculative building firms and contractors, as well as the Building Societies Association, and increasingly the banks and insurance companies, could be expected to support the Thatcher policy of indirect but strong financial support to private housing "for those who are able to prosper".

To summarize; the single-minded, 'market-strong' ideology of the Thatcher government has been the driving force behind the pattern of privatization found in British housing in the 1980's. But it has been helped by an already polarized housing market, lacking the alternatives to owner occupation and/or renting existing in, e.g., Sweden and Norway at the beginning of the privatization era. Furthermore, it has been helped by institutional peculiarities in the British political and administrative system; an electoral system providing a comfortable majority for the victor, a circumscribed - and circumscribable - local government, as well as by the pluralistic, and thus more manipulable, relations among organized housing interests and between them and different levels of government.

But the very success of the Thatcherite strategy for changing the public-private mix in British housing has also built a new Britain, more polarized in terms of housing than ever before. While supporting home ownership for "those who are able to prosper", Tories have at the same time converted whatever public housing there is left into one gigantic "welfare estate", where tenants are at the mercy of central government regulations to a greater extent than in earlier periods. The irony of it all, however, is that politically, the home has indeed become a fortified castle. Should the Labour Party, or for that matter the Conservatives, suggest redressing the balance between public and private in British housing through measures against home ownership, such a move would only waste the 'power resources' necessary to gain political power. What the Thatcher government has achieved, then, is to "make owner occupation safe from democracy".

It should be noted the long-standing effect of the economic and housing market development on the one hand, and the geographical distribution of Tory and Labour votes on the other. The Conservatives have become dominant in the more prosperous southern part of the country, while the Labour Party has a weaker position in the depressed northern parts of England and Scotland. (Smith, 1983:17). Thus the Conservatives could generally count on a more substantial vote from local authorities areas where both the development and the local regulatory/developmental bodies have adhered to the development of the housing market.

Finally, one must not forget the importance of the specialist consultation of organized interests in British housing. Unlike Sweden, even the public landlords and the council tenants lack strong organizations at the national level, who could put pressure on the Tory government. The development policy formulated the numerical strength of the tenants and the range of the services of residential and commercial networks, therefore in public housing probably also much of the political activities. The regulation of local authorities' activities on council housing production, thus also influencing much of the support local authorities may have been able to muster among the public fragmented building firms and contractors in Britain. Instead, the more speculative building firms and contractors as well as the building service Association and the country's major and smaller companies, would be expected to support the Labour Party of interest but strong financial support to private housing, the more who are able to prosper.

To summarize, the single-minded, market-based, market-based ideology of the Thatcher government has been the driving force behind the process of privatization based on British housing in the 1980s. But it has been helped by an already existing housing context, including the initiatives to lower corporation tax on housing existing in, e.g. Sweden and Norway at the beginning of the 1980s. The Thatcher government has been helped by institutional parameters in the British political and administrative systems, an electoral system providing a comfortable majority for the right-wing Conservative and Conservative-Unionist coalition, as well as the political and financial and financial means of the private housing organizations, housing the public and between them and different levels of government.

But the very success of the Thatcher strategy for changing the public provision of housing in Britain has also, with a few exceptions, more problems in terms of housing than ever before. With a significant income elasticity for those who are able to prosper, Tories have at the same time converted whatever public housing there is left into one of the most "welfare-oriented" areas in the country. The way of a government's relationship to a welfare state is in a sense a political choice. The way of a country is that political. The home we indeed had a political choice. All however is that politically, the home we indeed had a political choice. The balance between public and private in British housing through market forces against public provision, such a move would otherwise be "best interests" according to public opinion. When the Thatcher government has achieved, there is to make over competition with the market.

THE NETHERLANDS: WOBBLY PILLARS STANDING BETWEEN STATE AND MARKET

3.1 From Non-intervention to Comprehensiveness; Dutch Housing Policy 1945-1960

At the outbreak of the Second World War, Dutch housing was almost totally private. There were Housing Associations providing social rental housing under the 1901 Housing Act. Their share of the housing market was, however, limited. Successive inter-war governments stressed the importance of the free market as the main mechanism for housing provision (Van Weesep, 1982:7, 11 ff.). Under the impact of war, a rent freeze was imposed in 1940.

The economic situation after the war made the Left-Center coalition coming into power in 1948 give priority to economic recovery. Strict wage and price controls were imposed. Capital was steered to 'productive investments'. This influenced housing policy in two ways. First, housing had to be kept inexpensive to allow the wage and price controls to function properly. Thus, the rent freeze was kept in place until 1951, when a policy of government-determined rent hikes was introduced (Oosterhaven and Klunder, 1988:3). Second, investments in housing production had to give way to industrial investments. This in turn indicated that the 1947 shortage of 300 000 units would not be quickly eradicated (Van Weesep, 1982:17).

The cornerstone of the modest housing program adopted in 1949 was **finance**. Government now subsidized rental housing, some of which was produced and run by the Housing Associations. Often set up along the 'pillarized' lines of Dutch society, these non-profit Associations are technically private bodies (Hereijgers and van der Moolen, 1988:2f.). Throughout the 1950's, about half of all new production was financed by low-interest public housing loans. A large part of the privately financed housing production also got public subsidies, leaving only a fraction of all new housing non-subsidized. In addition, sponsors of public housing units got running subsidies allowing below-market rents. This concentration on public housing is said to have "corresponded to the administration's preference for collective consumption". Owner-occupied housing amounted to just about one-third of new production (Van Weesep, 1982:18 ff.).

The other essential part of the Left-Center government's housing program was **regulation**. Here, the Dutch went further than many others by regulating not only the quality and price of subsidized dwellings, but also the allocation of dwellings

among regions and households. The Reconstruction Act empowered each region to allot a quota of building permits in proportion to the regional quantitative shortage (Van Weesep, 1982:21). And under the Housing Allocation Act, each household had to obtain a housing permit to move into a dwelling. Access to public housing and to other subsidized rental units was determined by housing authorities according to two sets of criteria; one to decide which households would be eligible for such dwellings, another to rank these households on the waiting lists. Private landlords had to select their renters from the municipal waiting lists (Van Weesep, 1984:334).

To this should be added the regulation of planning and land use. Dutch local municipalities were legally required to set up land-use plans for all land outside the built-up area and design its use. Once such a plan was in force, municipalities could compulsorily buy the land necessary for housing development. In this way, they have come to control the land market. The municipalities also enacted legally binding building codes to control the type and quality of buildings in their area (Needham, 1988:56 ff.).

3.2 Between Intentions and Realities; Public-Private Oscillations in Dutch Housing 1960-1980

However, the 'housing problem' remained. Although public subsidies to housing production and rents had increased from 2 to 5 percent of the governmental budget since 1950, a 1960 census found that the housing shortage was at least 300 000 units (Van Weesep, 1982:18, 25). Thus, the Center-Right coalition coming into power in 1959 with a long-term objective of a 'free' housing market and less governmental intervention found itself bogged down in the intricacies of existing policy. Its response was a strategy of 'intervention first, liberalization later' (Harloe and Martens, 1985:1072). When the liberalized stage was about to be reached, however, the realities of faltering private production, continuing shortages and the issue of affordability forced this principally 'market-oriented' coalition to increase government involvement.

The 'intervention first' features included such **financial** stimuli as extra subsidies to developers and municipalities opting for industrialized housing (Van Weesep, 1982:25). The 'liberalization later' strategy contained both **definancing** and **(de)regulatory** parts. First, the system of annual subsidies for new dwellings introduced in 1965 gradually decreased to zero after at least ten years. Housing consumers would then bear the full rent burden. To diminish government expenditures the low-interest loans for new Housing Act construction were replaced by loans at market rate in 1968 (Van Weesep, 1982:29). Several rent policy measures aimed at stimulating non-subsidized new construction. Rent hikes were made annual, and tied to general price indices and to increases in building costs. Rent controls were abolished in 'no shortage' areas, and extra rent increases were allowed for older dwellings of good quality (Oosterhaven and Klunder, 1988:4 f.). The permit and allocation systems were gradually eased, particularly in regions

where the housing shortage was more or less bridged.

As a result of this policy, the construction and rent subsidies' share of the total governmental budget went down to about one percent in 1969. Thanks to the subsidy system, but above all the rent increases, profitability was good. Private investment in (non-subsidized) rental housing increased. By the end of the 1960's, total housing production was 50 percent higher than ten years before, and the non-subsidized part averaged 26 percent during the decade (Van Weesep, 1982:20). The center-right coalition's preference for individual consumption was evidenced by lowered subsidies to public rental dwellings, whereas the so-called premiums to owner-occupation increased. The 1967-1973 period represented a private house-building boom (Harloe and Martens, 1985:1072).

But the repeated rent increases affected housing affordability, forcing the principally 'market-oriented' government coalition to intervene on the **consumption** side. A limited rent supplement program was introduced in 1970 for low-income households living in the (relatively expensive) post-1960 housing. There was also an expansion of the subsidized construction program around 1970 as a reaction to alarming figures of the continuing housing shortage. The Center-Right coalition thus left a legacy of increasing rather than decreasing public involvement in housing finance when it lost power in the 1972 elections (Van Weesep, 1982:29 f.).

The new Left-Center coalition's policy was revealed in the 1974 **Rent and Subsidy Memorandum**. Viewing housing as a social right (Priemus, 1987a:21), the coalition envisaged a greater role for the public sector, not as a necessary (short) prelude to a well-functioning market but as a means to attain a just distribution of housing standards and costs (Van Weesep, 1982:31). To this end, the government increased public financing of both production and consumption of housing. It also reinforced public control over housing allocation.

In terms of housing **finance**, the so-called dynamic cost-price renting system introduced in 1975 determined the initial cost price for a new dwelling by way of equating the expected revenues and expenses over the estimated 50-year lifespan of the building at present value. However, the 'dynamic cost price' was not to be fully charged to the housing consumer. He or she should pay a lower 'demand rent', determined by the government. The difference was to be paid out to the house owner as an 'object' subsidy by the government (Brouwer, 1988:297 f.).

The dynamic cost-price rent and the demand rent increased by the same percentage annually. This meant that the government's financial input into this system would grow proportionally in nominal terms, thus committing the government to subsidizing new housing for decades (Van Weesep, 1982:38). And if the underlying assumptions about inflation were to turn out as too low compared to real developments, the public purse would be even more strained (Klunder, 1988:309 ff.) Indeed, the 1970's saw a four-fold increase in rents, while the increase in direct housing subsidies (tax relief to homeowners not included) increased by a factor of 10 (Van der Schaar, 1982). On the other hand, this increase should be seen in the perspective of overall economic and public budget growth; housing expenditure actually fell from 9 to 7 percent of total governmental expenditures by the end of the 1970's (Harloe and Martens, 1985:1069 f.).

The Left-Center coalition also concerned itself with affordability and with the targeting of housing subsidies (63 percent of all direct subsidies in 1975 went to home owners; Van Weesep 1982:32). The acceptable rent-income ratio - the 'social housing price' - should be 17 percent for 'modal', and 10 percent for 'minimum' income tenants (Priemus, 1987a:21). Together with the higher rents set under the new dynamic cost-pricing system, this intervention increased the number of households eligible for individual rent supplements from 125 000 in 1974 to 318 000, or nearly 12 percent of all renters, in 1975 and to over 400 000 in 1980 (Van Weesep, 1984:338).

During the 1960's and early 1970's, the Center-Right governments had actively promoted home ownership. The production of single-family homes was supposed to please middle-class voters and make more rental housing available through the process of 'filtering'. Viewing home ownership as a right also for low-income families, the left-center government after 1972 increased support to home ownership by establishing the so-called "subsidy A dwelling"-program, under which housing associations and other non-profit developers could build homes for sale to low-income purchasers (Van Weesep, 1982:38).

As for housing allocation, the earlier general deregulation gave way to a fine-tuned set of regulations differentiated along sectorial and regional lines. The 1947 Housing Allocation Act was reinstated in some deregulated municipalities, and could be lifted only through active demands from the municipality. Resident permits were to be automatically granted for certain categories, but municipalities would continue to hold a responsibility for allocating public housing and subsidized owner-occupied units (Van Weesep, 1982:39).

The dynamic cost-price system of 1975 dramatically changed the housing market. It ended a system which had compensated the investor entirely for the losses during the first 10 years of operation and promised a more profitable return than other investments thereafter because of rent increases. After 1975, losses during the first years would have to be covered by accumulative loans requiring government subsidies (Klunder, 1988:309 ff.). A fair return on housing investments would thus depend on the willingness of future governments to subsidize, and on the renters' acceptance of strong rent increases over 50 years. No wonder, then, that private investors began to move out of new housing. Production of new private rented dwellings was cut in half between 1975 and 1979 (Priemus, 1987a:22). At the same time, between 40 000 and 50 000 rental dwellings were converted into condominiums annually (Van Weesep, 1984:338).

This development put the Left-Center coalition in a dilemma. Its policies seemingly decreased the supply of affordable dwellings necessary to fulfil the objective of housing as a social right. But parallel to this dwindling of the rental production and supply, new demographic patterns, rising incomes and the prospect of rising real estate prices led to a boom in the owner-occupied market. The production of new homes held steady around 55 000 units annually until 1980. Prices in the existing stock soared, some years at the rate of 25 to 30 percent (Priemus, 1987a:22). This they could do because of the fervent competition among credit institutions, who tried to outbid each other by offering favourable conditions

to borrowers. The Dutch situation has always been characterized by little legislative control over the financial systems, and there were very few specialized mortgage banks with established routines for credit controls and value assessments (Harloe, and Martens 1985:1073).

When prices finally stagnated and began to fall, there was also a slump in new private construction. Non-subsidized building fell from 34 000 to 6 000 between 1978 and 1982. This collapse coincided with the overall, very severe repercussions on the Dutch economy following the second oil crisis in 1979. Thus, the new Center-Right government - in power from 1977 on a program of limiting public housing expenditures and returning housing provision to the private market - found itself forced to intervene. These interventions put severe strains on the budget, given the exceptionally high interests levels at the time. Rapidly rising housing costs and declining household incomes raised the number of households eligible for housing allowances by over 20 percent from 1977 to 1979. In two years, total expenditure on allowances increased by 250 million Dfl. (Priemus, 1987a:26). Housing subsidies - excluding tax subsidies - came to cover one-sixth of total housing consumer expenditures by 1980 (Van der Schaar, 1982).

During the 1960's and 1970's, various Dutch governments thus found their housing policy intentions dashed when meeting market realities. Both before and after the Left-Center episode, Center-Right coalitions had to go against their long-term programs and intervene in order to keep the market going. The Left-Center coalition of 1973-1977 intervened to increase housing availability and affordability, only to leave the subsidized rental construction crumbling and the private - and increasingly expensive - home ownership market thriving. An economic depression, and a crumbling housing market at the turn of the decade forced the Center-Right coalition to go against its long-term objectives. Its interventions left the comprehensive public involvement emerging from the two first decades after the war pretty much intact, thus halting the envisaged state exodus from housing until the end of the 1980's.

3.3 The Public-Private Mix in Dutch Housing by 1980; A Comprehensive Public Involvement

Whether by circumstance or design, Dutch public involvement in housing had thus become very comprehensive by 1980. Over the decades, this involvement had helped shaping a peculiar institutional pattern in Dutch housing, thereby creating conditions which might be decisive for future efforts of privatization.

With a population density second only to that of Bangladesh (Kampschöer, 1988:15), it comes as no surprise that the Netherlands has developed a very elaborate system of land-use planning. Municipalities must make a land-use plan for all land outside the built-up area to control development there. With such a plan, all new housing can proceed only by way of a building permit; the permit is granted only if the new housing conforms to the plan. Furthermore, a valid land-use plan makes it possible for the municipalities to purchase land compulsorily; a

formidable means for controlling housing developments. When disposing of land for housing, municipalities usually negotiate with a few Housing Associations and property developers (Needham, 1988:60). In these negotiations, the municipalities could use not only the legal powers vested in the land-use plan, but also the regulatory instrument known as the building code. Every municipality must establish such a code, regulating the construction, maintenance, use and demolition of all housing property. Thus, no housing could proceed if not conforming to that code (Kampschöer, 1988:16).

By the end of the 1970's, this comprehensive municipal regulation of land-use and housing within local boundaries was closely related to central government regulation and financing. On the basis of local and provincial plans, the central government formulated a long-term **House-building Plan**, with the first year binding. After the plan was adopted by Parliament, the municipalities were informed of the quota of different types of dwellings that may be built in their respective areas. Insofar as this 'permitted' housing required public subsidies, the central government made decisions on every such individual project, with the municipality acting as an intermediate in passing on the subsidies (Kampschöer, 1988:12; Needham, 1988:58 f.).

By 1980, the central government partly financed both the production and consumption of housing. Both Housing Act dwellings built and managed by the Housing Associations and private rented dwellings could receive production subsidies under the 1975 dynamic cost-price system. In the owner-occupied sector, income-related premiums could be given to buyers as a subsidy toward the mortgage costs for a specified length of time (Ymkers and Kroes, 1988:202). In

Table 3.1 Completed Dwellings in the Netherlands, 1950-1980, by Financing Categories

Period	Total (1000's)	Housing Act Dwellings %	Private Financing	
			Subsidized %	Non-subsidized %
1950-1958 (Left-Center)	595	51	45	4
1959-1972 (Center-Right)	1 524	43	35	22
1973-1977 (Left-Center)	642	34	44	22
1978-1980 (Center-Right)	307	32	39	29
Total 1950-1980	3 068	42	39	19

Source: Van Weesep 1982:20. Remark: Of the about 90 000 dwellings completed in 1945-1949, none seems to have been without state subsidy. Cf. Ministry of Housing, Physical Planning and Environment 1987:2 f.

1980, the Dutch government still provided loans to the construction of Housing Act dwellings, and guaranteed loans provided by the capital market (Ministry of Housing, Public Planning and Environment, 1988a:58).

Table 3.1 shows that by 1980, four out of five postwar Dutch dwellings had been produced with state financial support. Seen in relation to the total stock, state production subsidies had in some way touched nearly half of 4.85 million dwellings available in 1980 (cf. Priemus, 1989a: Table 3). There is also a discernible historic trend toward less public financing; non-subsidized housing production increased from a trickle in the 1950's to almost one-third by 1980. Furthermore, the share of social rental housing, i.e., Housing Act dwellings, has decreased over time. The downturn during the Left-Center period of 1973-1977 is particularly worth noting.

The 1980 Dutch government financed housing consumption in all three main sectors (cf. Kampschöer, 1988:20 f.). For homeowners with a mortgage, the difference between an imputed rent and the interest payments could be deducted from taxable income (Ministry of Housing, Physical Planning and Environment, 1988a:59). Because of the sales price increases in the owner-occupied market in the mid- to late 1970's, and the high interest rates (cf. Priemus, 1987a:22), this indirect public support grew fast. Whereas in 1975 about 55 percent of all homeowners enjoyed tax deductions, this share had risen to 68 percent in 1981, thus benefiting 1.4 million home owners (cf. Priemus, 1989a:Tables 3, 10; 1987b:20). It is held that this indirect housing consumption subsidy equalled 3.2 billion Dfl. in 1980, thus exceeding direct governmental subsidies by 0.3 billion (Van Weesep, 1982:53).

Following the 1975 dynamic cost-price reform and the governmentally controlled process of rent increases and harmonization in the 1970's, the rent subsidy program grew to 0.9 billion Dfl. It comprised 418 000, or one out of seven of the approximately 2.8 million Dutch renter households in 1980. (Priemus, 1989a:Tables 1, 9; cf. Ymkers and Kroes 1988:192). However, in the newly produced rental dwellings, the share of recipients was about 50 percent (Van Weesep, 1986:64).

In principle, the 1975 and 1979 rent regulations covered all Dutch rental housing. A rent control system allowed the government to dictate an annual trend-related increase in the rent for existing dwellings, and to indicate the desirable initial rent for newly built or renewed dwellings for the next five years. A rent harmonization system based on the comparison between stereotype-quality new dwellings and existing ones allowed for deviations from the trend-related increase depending on the quality points for the existing dwelling. This harmonization procedure was made obligatory in 1979, as the national system of quality points was further refined (Brouwer, 1988:295 ff.; Oosterhaven and Klunder 1988:5 f.; Kampschöer 1988:13).

As mentioned earlier, the public control over housing allocation was somewhat strengthened after 1974. Municipalities could make local restrictions by confining access only to households economically tied to the region. Local governments could also use powers vested in planning legislation to secure a particular allocation profile (Van Weesep, 1982:39 ff.). As for the coverage of public allocation, 50 percent of the municipalities in the controlled regions had full control over the admission to waiting lists, whereas 48 percent of those in de-controlled regions were not involved in the registration of households. 46 percent of the municipalities in

Table 3.2 Completed Dwellings in the Netherlands, 1950-1980, by Investor Categories

Period	Total (1 000)	Private Investors %	Housing Associations %	Municipalities* %
1950-1958 (Left-Center)	595	40	28	32
1959-1972 (Center-Right)	1 524	51	30	19
1973-1977 (Left-Center)	642	60	36	4
1978-1980 (Center-Right)	307	67	30	3
Total 1950-1980	3 068	52	32	17

Source: Ministry of Housing, Physical Planning and Environment 1987:2 f.

* includes certain special public authority investors

the controlled regions carried out the allocation of rental dwellings, while only about 20 percent acted as allocators of owner-occupied housing (Van Weesep, 1982:59 ff).

Dutch housing production is mainly private; 'institutional investors' (cf. below), development companies and building firms, and Housing Associations dominate. Municipal authorities can not act as investors unless they establish that private initiatives of the Housing Associations are inadequate (Flynn, 1986:228). In strict legal terms, the Housing Associations are private institutions; 75 percent are associations, and 25 percent foundations. However, the Housing Act gives them special status as "authorized institutions" to be active "solely in the interests of housing" (cf. Priemus, 1989a), and they concentrate mainly on 'social' rented housing. This makes it adequate to regard them as 'public' in the same sense as Sweden's Municipal Housing Companies. Table 3.2 shows that private investors steadily increased their share of new production, whereas the municipal investor role decreased dramatically since the immediate postwar years. Housing Associations held just under one-third of new production over the years.

Figure 3.1 shows that the Dutch housing sector in 1980 was characterized by comprehensive public involvement. New housing production was pretty thoroughly covered by regulatory and financial interventions; however, the bulk of non-subsidized new housing was among private investors. The existing rental stock was subject to direct public rent regulations. The seemingly least inroad made by the public sector was into the existing stock of owner-occupied dwellings. There were no price controls except for the special low-income homes built in the late 1970's, and the regulation of housing allocations was the least in this sector. The production situation was very much like the one found in Sweden; very little of a directly public investor role through the local government, but a substantial such role for the Housing Associations.

Figure 3.1 The Public-Private Mix in Dutch Housing in 1980: The Extent of Public Responsibility for Main Activities

Activity	Object	Extent of Public Responsibility
Regulation	Housing Production	Municipal control of location through planning of all land used for housing
		National government control of quantity and location by allotting all new production as quotas among municipalities
		Municipal control of quality of all new housing through building permits
	Housing Consumption	Municipal control of allocation in shortage areas (60 percent of population), by way of mandatory household housing permits
		National price regulations through rent control of all new rental housing and rent harmonization in whole rental stock
Financing	Housing Production	Public subsidies to 80% of new housing (nearly 100% of new municipal and Housing Association and 60% of new private housing); all projects subject to national government subsidy approval
	Housing Consumption	Public rent subsidies to 14% of the renters. Tax deductions on mortgage interest for 68% of the homeowners
Production		Municipalities acted as investors of new production (Housing Associations acted as investors in 33% of new production)

3.4 The Institutional Setting of Dutch Housing in 1980; Interdependent Bureaucracies in A Highly Mobilized Policy Network

In October 1979, the Ministry of Housing, Physical Planning and Environment published a **Memorandum on the Decentralization of Housing**. It stated that to obtain "a full understanding of the present practice and procedures, one needs not only a description of the formal authorities and procedures, but also an administrative and 'politological' analysis of the housing process" (quoted in Kroes, 1989:10). As I have pointed out elsewhere, the degree of integration of decision-making, financing, and implementation within the administrative structure, the kind of relations existing between public bodies and affected interests, as well as the budgetary 'visibility' of public support, and the political leverage of the receivers, may prove decisive to privatization efforts (Lundqvist, 1989:134 ff.). Before looking

Table 3.3 The Dutch Housing Stock According to Tenure, 1947-1980

Year	Type of Tenure		
	Owner-occupation	Private Renting	Social Renting
1947	28	60	12
1956	29	47	24
1967	32	33	35
1975	39	20	41
1980	43	15	41

Sources: Hereijgers and van der Moolen 1988:2; Priemus 1989a: Table 3.

into that, however, let us find out what could be privatized in Dutch housing. We saw earlier that a large part of the Dutch post-war production took place in the so-called 'social' rented sector. So was there, like in Great Britain, a large public rental sector that could be sold out to owner-occupation?

At first glance, the Dutch situation resembles that in Great Britain at the outbreak of the council house sales in 1979-1980. Owner-occupation showed a steady increase, while the rental sector as a whole had become more 'public'. Two out of every five dwellings were in the 'social' rented sector in 1980, while the privately owned rental sector's share had dwindled to only one quarter of what it was just after the war.

However, the possibilities of privatizing through direct sales of public housing were more limited than in Britain. Only 8 percent of the housing stock was in direct municipal ownership, while 33 percent was owned and managed by the Housing Associations (cf. Table 3.4). To sell off their stock the Associations would need municipal approval. Given the intertwined relations between governmental levels and organized interests (cf. below), a sales decision would probably have to be sanctioned by central government policy.

What then were the possibilities and problems of other measures, such as public withdrawal from financing and regulation? By 1980, the division of labour among the public actors involved in Dutch housing indicated that all important decisions

Table 3.4 The Dutch Housing Stock According to Ownership, 1956-1980

Year	Owner Category				
	Owner-occupiers	Private Persons	Private Institutions	Municipalities	Housing Ass'n
1956	29	42	6	11	12
1967	32	23	10	14	21
1975	39	13	7	12	29
1980	43	10	6	9	32

Sources: Van Weesep 1982:44; Priemus 1989a: Table 3.

concerning the quantity and financing of housing were taken at the central level. The Parliament decided on (a) annual (binding) housing programs, (b) longer-term plans for publicly assisted housing, and (c) on state budget allocations to housing, after proposals from the Ministry of Housing and Physical Planning. The Ministry allocated quotas to the municipalities, and checked every individual subsidy-seeking housing project before financial support was given. Central government held control over rents through Parliament decisions on initial rents in new housing and on maximum allowable rent hikes in the stock, as well as over rent harmonization through a centrally developed system of quality points. Finally, the Ministry decided on all applications for individual rent subsidies. It should be added that Dutch municipalities have a very small own tax base. Only 6 to 9 percent of their expenses come from locally levied taxes on real estate; the rest is supplied from central government funds (Kampschöer, 1988:9).

On the other hand, the municipalities held a crucial position in the formulation of housing programs and plans. The central government depended on their initially submitted annual housing production programs when formulating the programs and plans at the national level. Furthermore, the municipalities held a key position *vis-à-vis* local housing consumer and producer interests. In shortage areas, they determined housing allocation through their power to issue housing permits to households. Their land-use plans, their land ownership, and their legally binding building codes gave them the decisive power over which housing projects should be given building permits. Finally, the municipalities acted as intermediates between the national subsidizing level and local receivers of housing support, and as overseers of the financial operations of Housing Associations.

Thus, there existed a precarious interdependence between different public actors in the housing sector. The local level was dependent on continually forthcoming financial aid from the center to fulfil local housing goals, while the central level depended on active municipal planning and program implementation to reach national housing objectives. This meant "a huge amount of consultation and negotiation" (Kampschöer, 1988:9). True enough, central government could use its formal power to privatize by cutting housing subsidies or by stripping the municipalities of their regulatory and planning powers. However, the "corporate reality of [Dutch] politics", made such moves difficult, since "special interest groups co-operating across sub-cultural lines jointly represented powerful political and social forces" (Daalder, 1989:15) also in the housing sector, not the least as a legacy from earlier public intervention (cf. Oosterhaven and Klunder, 1988:7).

The expansion of a 'social' rented sector in the Netherlands after the war relied heavily on the non-profit Housing Associations (cf. Tables 3.2 and 3.4). Organized as private law - and tax exempt - 'corporations of capital' or 'associations of members', there are about 900 such "woningcorporaties". Their founding history and structure reflects the traditional 'pillarization' of Dutch society; they are created by churches, trade unions, employers, social organisations, and private citizens. However, the Housing Associations cooperate closely across such lines at the local level. They are organized in two federations, the National Dwellings' Council and the National Christian Institute for Housing (Kampschöer, 1988:11).

Association finances were largely determined by state subsidies and rent regulations, and the municipalities oversee their operations. As holders of large stocks of housing - 65 percent have holdings of 500 dwellings or more (Kampschöer, 1988:11) - the Associations played an important role in local housing markets. Many municipalities had transferred the responsibility for housing allocation to the Associations, or cooperated closely with them on such matters (Van Weesep, 1982:60 ff.). The municipalities thus depended on the Associations for fulfilling the objectives of local housing programs.

But could not the emphasis on 'social' rented housing imply a concentration on 'marginalized' groups and 'category' housing, as in Great Britain, detracting from the political power of the Associations? Here, one should bear in mind not only that rental housing has held a large share of new Dutch housing, but also that private investments in expensive rental housing has taken place. Furthermore, even if there is a certain emphasis on providing 'social' rented housing to low or modal income families (cf. Harloe, 1985:100), there is no effective upper income limit for eligibility (Kampschöer, 1988:11; cf. Hereijgers and van der Moolen, 1988:2 f.). In effect, the wide range of social organizations behind the Housing Associations reflects the very unique class alignments in Dutch politics, and imply their crucial importance for the content and fate of any governmental welfare program, including housing (Harloe and Martens, 1985:1079 f.; cf. Flynn, 1986:228).

Strong interest reactions could be expected also in the private rental sector if the government were to institute radical changes in housing finance. The so-called 'institutional investors' - pension funds, social funds, insurance companies, savings and giro banks - build and manage subsidized rented housing for profit, preferably at the upper end of the market (cf. Harloe, 1985:100, 112). Together, these investors constituted a formidable force in the Dutch economy around 1980. They managed 90 percent of all capital held by active investors in the Netherlands. Holding as much as 10 percent of the Dutch housing stock in the mid-1970's, they reacted strongly to the 1975 dynamic cost-price system, and began to withdraw from rental housing, dropping to a share of 4.5 percent. To overcome the mounting rental housing crisis at the end of the 1970's, the Dutch government found itself forced to engage in negotiations with the Council for Real Estate - the national organization of institutional investors - to adapt the subsidy system to these investors' demand for a 'reasonable' profitability on subsidized housing (Conijn and Papa, 1988:178).

Indeed, the cooperation between the public sector and organized interests was not limited to negotiations to overcome temporary (?) market problems. The 'corporate reality' of large bureaucracies, strong vested interests, and national lobby groups in Dutch housing (cf. Oosterhaven and Klunder, 1988:7) had a formal expression in the **National Advisory Council on Housing**. This council consists of representatives of the Housing Associations, institutional investors, trade unions, building companies, private landlords, and renters. Furthermore, it comprises experts in public health, housing management, and public administration. Its full time secretariat is paid by the Ministry for Housing and Physical Planning. The Dutch government has to seek the Council's advice when preparing formal housing legislative measures or taking administrative measures concerning the overall area

of housing. The Council can also take its own initiatives (Kampschöer, 1988:7).

Thus, any governmental withdrawal from the subsidization of housing production would need the acceptance of the largest investor categories, i.e., the Housing Associations and the Council for Real Estate. But what about public exit from the financing of housing consumption? As was shown above, 1.4 million Dutch homeowners enjoyed tax benefits totalling 3.2 billion Dfl. in 1980, while 0.4 million renters received a total of 0.9 billion Dfl. in individual rent subsidies. Already the sheer number and socio-economic spread of subsidized homeowners indicates the political difficulties involved in reducing the tax benefits, compared to cutting subsidies to a rather precisely delineated stratum of renters. Individual rent subsidies were furthermore a highly visible, and fast growing item in the budget, thus more open to attack than the 'hidden' tax benefits to homeowners (cf. Schwartz, 1987:166). Finally, the central government both held the purse and made the decisions on each individual application for rent subsidies. Payments were often made directly to landlords, who had already lowered the rent by the presumed subsidy. Thus, no other governmental level could be expected to defend the program out of bureaucratic self-interest (cf. Dunleavy, 1986:20).

There was thus a considerable mix of public and private, and a pervasive formal and informal regulatory cooperation between public authorities and organized interests. However, there was also a strong concern in Dutch politics about the so-called "interest group colonization of the public sector" (Andeweg, 1988:124). The "desire to maintain what was termed 'the primacy of politics' ...in setting priorities" was closely linked to wishes to "economise, to decentralise, to deconcentrate, to deregulate, to denude the government of surplus tasks" (Daalder, 1989:16).

Should we, then, expect a radical and general pattern of privatization in Dutch housing strengthening the regulatory role of government, while putting most of the financial burden on the private sector, regardless of the type of party coalition in power? Were the traditional 'pillars' wobbling enough to allow such across-the-board solutions? Would not a much more subtle and specific pattern, depending on party coalitions and their ideological views, and on the Dutch parties' traditional - and very peculiar - affiliations to socio-economic and confessional constituencies be more likely?

3.5 "Free at Last"? Dutch Housing in the 1980's

As was briefly outlined above, a Center-Right coalition held power at the beginning of the 1980's on a long-term program of limiting public housing expenditures and returning housing provision to the private market, only to find itself caught in the most severe postwar economic crisis in the Netherlands. Unemployment rose dramatically, not the least in the building industry. Real incomes fell, while interest rates rose rapidly. The owner-occupied market crashed. The private investors' exodus from the rental market - begun as a result of the 1975 dynamic cost-price system - was sped up. The worsened income situation for many households made the existing rent increase policy politically difficult. To this was added a strong

increase in the number of households during the late 1970's (for an overview, see Priemus, 1987a; Harloe and Martens, 1985).

Two things can be said about the 'forced' interventions made at the turn of the decade. First, they reflected some of the ideological perceptions of the Center-Right coalition. Premiums to new private housing production were increased (Harloe and Martens, 1985:1074). A new type of rental housing - the 'quasi-housing act dwelling' - was introduced, to be financed via the capital market but otherwise subsidized as Housing Act dwellings under the 1975 system (Priemus, 1987a:23; cf. Priemus, 1987b:417). Required standards for new 'social' housing were lowered. So were subsidy commitments; this was done by reducing eligibility for housing allowances and raising rents (Harloe and Martens, 1985:1074).

Second, they left their mark in the form of increasing financial public involvement in Dutch housing for most of the 1980's, despite subsequent efforts to cut back on public involvement. Public expenditures on housing actually increased their share of total public spending. The number of individual rent subsidy recipients grew to nearly 900 000 up to 1987. This meant that 30 percent of all renters received such subsidies, as compared to 14 percent in 1980 (cf. Hereijgers and van der Moolen, 1988:5). Direct housing subsidies doubled between 1980 and 1985, and reached 9.5 billion Dfl. in 1987. Tax subsidies to home ownership rose from 3.2 to 5.75 billion Dfl in the same period (Boelhouwer and Priemus, 1990:110 f.).

In fact, several indices of housing production and housing stock developments indicate that public involvement increased during the first half of the 1980's. As can be seen from Table 3.5, the Center-Right coalition had to allow a strong expansion of social rental production up to 1984. Not until 1985 did the shares of different financing categories begin to take on the pattern prevailing since the early 1970's. In fact, the sum total for 1981-1987 shows almost exactly the same public involvement as for the whole postwar period up to 1980.

Table 3.5 Completed Dwellings in the Netherlands, 1981-1987, by Financing Categories

Year	Total (1000's)	Housing Act dwellings %	Private financing	
			Subsidized %	Non-subsidized %
1981	118	47	38	15
1982	123	53	39	7
1983	111	47	47	6
1984	113	44	41	15
1985	98	35	43	22
1986	103	34	38	28
1987	110	33	34	33
Total	776	42	40	18

Source: Statistical Yearbook of the Netherlands, resp. years.

Table 3.6 Completed Dwellings in the Netherlands 1981-1987, by Investor Categories

Period	Total (1 000)	Private Investors %	Housing Associations %	Municipalities %
1981	118	48	46	6
1982	123	40	54	6
1983	111	53	42	5
1984	113	52	42	6
1985	98	59	36	5
1986	103	62	36	3
1987	110	63	33	4
Total	776	54	42	5

Source: *Statistical Yearbook of the Netherlands*, resp. years.

Table 3.6 shows that the pattern of the 1970's with respect to investor categories was repeated in the 1980's. Despite its belief in private initiative and investment, the coalition government had to rely heavily on the municipalities and Housing Associations to bridge over the crisis in new production in the early 1980's. By 1986-1987, the situation was back to the pattern of ten years earlier.

Given the short period of time and the marginal change in the housing stock caused by annual additions, it is no surprise that both the ownership and the tenure patterns remained rather stable. Owner occupation changed only marginally, or from 42 to 43 percent. Social renting (through Housing Associations and municipalities) increased its share from 39 to 43 percent, while private renting (from institutional investors and private persons) went down from 19 to 15 percent (Priemus, 1989a:Table 3; Ministry of Housing, Physical Planning and Environment, 1988a:51; *Statistical Yearbook of the Netherlands* 1988).

Despite these seemingly stable overall patterns, however, there was a discernible trend towards less government involvement. The role of municipalities and Housing Associations in new production decreased from over one-half to only one-third of new production from 1982 to 1987, while private investors increased their share to two-thirds. In terms of financing, non-subsidized production took as much as social rental housing of new production in 1987. (*Statistical Yearbook of the Netherlands*, resp. years).

But was this a result of a conscious governmental policy to move the boundary over to the private side in housing? At least in words, the Center-Right coalitions of 1977-1981 and from 1982 onwards have seemed prepared to do so. But as Kroes (1989:10) points out, the 1979 *Memorandum on the Decentralization of Housing* - containing recommendations for less national governmental involvement - "was forgotten" as the housing market crisis mounted. The government fell back on the Dutch postwar tradition of countercyclical intervention policies. In 1980, however, a Royal Commission on Administrative Reform recommended 'decentralization to

the private sector' to reduce government overload and increase efficiency. The following year a Civil Service committee proposed privatization to cut public spending. And in 1982, the Center-Right coalition launched the policy of the **Six Major Operations**; Reconsideration, Reorganization, Deregulation, Decentralization, Debureaucratization, and Privatization (Andeweg, 1988:117 f.).

Still, however, the road towards less public involvement in Dutch housing was - to say the least - meandering; measures taken did not indicate a clear-cut lessening of the public role. The government decision right after 1980 to counter the collapse of the owner-occupied market and the mounting unemployment among construction workers directed Housing Associations to take construction loans in the open market rather than from the government to expand production. In this way, the governmental budget would not be affected (Klunder, 1988:313).

A seemingly more direct step towards a lesser public role was taken with the 1983 programs for **deregulation of housing and physical planning**. These programs would (a) simplify and unify rules and administrative procedures concerning housing production, and (b) increase flexibility and allow central influence over local plans. The dualism of these objectives is worth noting since it affected implementation. Of the original proposals, only about one-quarter of the finally implemented original proposals fulfil the criteria for 'pure' deregulations and could be said to really make a change (Klijin and Gastkemper, 1987:320).

In housing improvement and urban renewal, the Dutch government raised subsidies to renewal of postwar Housing Act dwellings. The actual decision on project subsidies was transferred to the municipality level, but a number of rather precise regulations were set up to provide for close central government control over improvement targeting and rent increases. The introduction of the 1985 Town and Village Renewal Act amalgamated earlier subsidy schemes and implied wide-ranging decentralization. At the same time, however, it committed central government to distribute one billion Dfl. annually among the provinces and municipalities to finance (the locally determined) renewal programs (Kampschöer, 1988:22, 27; cf. Hijmans and Meuldijk, 1989).

After these meandering moves in the wake of crisis of the early 1980's, the 1985 **Memorandum on Rethinking of Rent and Subsidy Policies in the Nineties** outlined the consequences of cutting governmental expenditures on housing by 20 percent or more. The Center-Right government began following up on this proposal in 1986 by **definancing** new production, involving a decrease of Housing Act dwellings and in building subsidies of 1.5 billion Dfl. up to 1990. At the same time, the government began trimming the individual rent subsidy program. The income base and rent/income ratio adjustments, as well as the maximization of 'eligible' rents (Brouwer, 1988:298; Priemus, 1987a:23) imply that the government aimed at targeting the program more and more on households in real need.

The 1985 Memorandum was but a prelude; in the 1988 **Memorandum on Housing in the Nineties**, the Center-Right coalition finally formulated its strategy for redressing the public-private mix in Dutch housing. At first glance, **definancing** and **deregulation** seem to be the keywords. However, a closer look reveals a much more complex pattern. The Minister viewed a continued subsidization of new housing as

impossible for fiscal reasons. Besides, positive socio-economic and housing developments were making subsidies less necessary, except in the case of households in real need. Thus, the dynamic cost-price system from 1975 should be abolished. Public subsidies to new production should be available only if rents are set according to governmentally determined trend-based increases outpacing inflation and income growth. Renewal grants would be given only on the condition that rents are increased afterwards (Ministry of Housing, Physical Planning and Environment, 1988b:7 f.).

Clearly, this public **definancing** of new production seems to privatize costs to the renters. Initial rents in new dwellings will be set in accordance with the high trend-based rates just mentioned. Rent-setting will be free for expensive private dwellings. For other such dwellings, only maximum fair rent limits will be determined, and maximum rent increases for dwellings below that limit. Separate rules, allowing for rent-averaging at the pace of the trend-based rent increase, will be in force for Housing Act dwellings. At the same time, owner occupiers will be favoured. The government foresees an increase in home ownership from the present 43 percent to 55 percent in the year 2000. This will be achieved through (a) subsidies to low-income home owners, and (b) continued rights for home owners to deduct mortgage interest from taxable income (Ministry of Housing, Physical Planning and Environment, 1988b:11, 13).

This favourable treatment of home ownership amidst public definancing of rental housing production is but one sign of the government's definition of the 'proper' public role in housing. Another is the obsession with targeting; governmental support should go where it is mostly needed. The **Memorandum** claims that about 700 000 Dutch households occupy Housing Act dwellings without being eligible under the Act's socio-economic criteria. To encourage "a better turnover" among these households, the government envisages short and intensive subsidy programs to private, more expensive dwellings.

Above all, however, the 1988 Memorandum revealed the Center-Right coalition's muffled voice on **regulation**. Although the new Housing Allocation Act would give municipalities more power to determine distribution criteria, some new regulations gave central government a controlling power. Rental contracts and housing permits may become only temporary, in order to enable continuous checks on whether or not Housing Act renters are actually eligible. Furthermore, the central government foresees a stricter means-testing in future allocations, to ensure that cheap dwellings go to low-income households (Ministry of Housing, Physical Planning and Environment, 1988b:10).

If continued for some period of time, such a strict allocation program would imply a development of the Housing Association stock into category housing, mainly populated by low-income or special-need households. To the outside viewer, this in turn would indicate a greater need for assistance to the Housing Associations to ensure their ability to fulfil this publicly determined responsibility (cf. Priemus, 1989b:6). But the Dutch government instead outlines "a greater autonomy" for these Associations. They will be freed of the need to obtain local municipal approval when selling part of their stock to owner occupation. On the other hand, the

Housing Associations were directed to obtain their loans in the capital market from 1988 onward. The government will stand only partly behind a Guarantee Fund to back up such loans, and will not help ailing Associations. Instead, a Central Fund has been set up, to which all Associations make contributions according to their financial strength (Ministry of Housing, Physical Planning and Environment, 1988b:5).

The Center-Right coalition also seemed to propose deregulation in the planning and finance of production. Based on the henceforth only 'indicative' housing programs, the municipalities will get in advance a lump sum which they can distribute among various local building projects. Thus, the central government will no longer check and decide on subsidies to every single housing development. The municipal role in housing allocation is also supposed to be strengthened (Fleurke and de Vries, 1990:39 f.).

However, several of the conditions laid down in the **Memorandum** seem to retain a strong regulatory role for central government. First, the so-called **Standard-Cost System** introduced in 1988 defines in rather precise terms which costs are acceptable, and thus which projects can be subsidized (Kampschöer, 1988:12). Second, the government contemplates establishing a **National Building Decree** which would determine the scope for local regulation and decision-making. Third, the rent price calculation system described earlier also impinges on local decisions: "municipalities are to see to its observance" (Kampschöer, 1988:13). Fourth, the above-mentioned restrictions on housing allocation seems to limit the scope for local decisions.

When the Center-Right coalition finally formulated a concrete strategy for 'privatization' in housing, it thus came close to our predictions for what a government promoting a 'market-strong' view would do. It plans to shed most of its responsibilities for housing finance; non-subsidized housing is to expand, and production subsidies will be concentrated on category housing for those in need. Consumption subsidies will also be targeted on the needy, except in the case of tax exemptions for home ownership. This deviation comes from the ideological bias of 'market-strong' parties towards this already very private, and market-dominated tenure. Finally, although there is much talk about deregulation and decentralization, new and generally applicable framework rules keeps central government very much in control of housing developments.

3.6 Explaining the Dutch Pattern; The Pillars May Be Wobbling, but They Have Kept Much of the House Standing

The development of the public-private mix in Dutch housing is particularly challenging in two respects. First, how come the housing sector was "able to hold its own reasonably well in the political arena" (Priemus, 1987a:25) for such a long time? Second, why this particular pattern of **exit from production financing** and a **muffled voice on regulation**? As it turns out, the patterns found in the Dutch case can be explained by the peculiarities of Dutch politics. These concern a) the

dominant mode of socio-economic organization, b) the ideologies and alignments of political parties in Dutch society, and c) the ensuing profile of welfare state capitalism in the Netherlands.

Indeed, the character and development of the Dutch welfare state cannot be fully understood if its most striking feature is left out of the analysis, i.e., its 'pillarization'. This refers to the "division of society into several organisational complexes which are highly isolated from one another and based on religious or ideological grounds." (Van Kersbergen and Becker, 1988:480). Pillarization has been characterized as a religious counter-movement to the Enlightenment and the revolutions emanating from its spirits, as well as a petty bourgeois resistance against the effects of industrialization. It got much of its strength from the battle over how to organize education - denominational or public - as well as from the 'Workers' Question' (Therborn, 1989:203 ff.)

Traditionally, Dutch society has been seen as resting on four pillars; the Catholic, the Protestant, the Socialist, and the Liberal. The confessional ones were more fully developed than the other two and included "the organizations of capital, political parties, occupational associations, broadcasting companies, organisations of women, sports clubs, schools, universities, hospitals, cemeteries, social welfare organisations - in sum, all social organisations" (Van Kersbergen and Becker, 1988:481). It thus meant a vertical mobilization of different social classes within "columns closed off from each other" (Therborn, 1989:202). As we have seen above, the Housing Associations have also to a large extent been organized along these pillarized lines.

The pillarization corresponded to a political pattern of 'consociational democracy', characterized by "grand coalition, segmental autonomy, proportionality, and mutual veto" (Lijphart, 1989:141). Coalition governments are the hallmark of Dutch politics; "the introduction of (a very extreme kind) of proportional representation" consolidated the already fragmented Dutch party system into a "multiparty system with a vengeance" (Daalder, 1989:13). Because of the alignments within this party system and between the 'pillar' blocs, the Protestant (ARP) and Catholic (KVP) parties have held a pivotal position between the Social Democrats (PvdA) and the Liberals (VVD, a conservative party). The latter two have 'mutually vetoed' each other out of participating in the same government coalitions (Andeweg, 1989:55). The Catholic KVP has "been part of every single Dutch cabinet since September 1918; since 1977 as the major force in the interconfessional Cristian Democratic Appeal (CDA)....Since December 1977, and for a total 35 out of the 70 years from 1918 to 1988, the Catholics have provided the Prime Minister." (Therborn 1989:196).

It goes without saying that this strong position for the Catholic party, now the cross-denominational CDA, has had a strong influence on the scope and direction of the Dutch welfare state. As was just mentioned, pillarization was both the cause and the consequence of the denominational drive for 'segmental autonomy' in education. Therborn (1989:206) notes that the state was for a long time seen by the denominationals as 'subsidiary'. Support for the sick, the needy, the young and the old was first and foremost a fellow responsibility within each pillar, not for the state (Van Kersbergen and Becker, 1988:483).

What is even more astonishing is how this politically pivotal ideology of pillarized primacy and state subsidiarity in social welfare, with its organizational counterpart in segmental autonomy, could "possibly lead to one of the world's most extensive welfare states". For it is true that by 1980, total public social expenditure as a share of GDP was higher in the Netherlands than in any other West European country. Furthermore, the expansion of the Dutch welfare state took place mainly in the 1960's and early 1970's, when the Social Democrats were out of office and the right-wing Liberals were part of the government coalition (Therborn, 1989:192 f., 208 quote).

The foundation for the expansion was, however, laid already during and just after the war, through what could be called a 'great grand coalition'. Giving great priority to the rebuilding of the postwar Dutch economy, the Catholics and the Social Democrats agreed on a policy of wage and price controls, combined with state measures towards social welfare (Wolinetz, 1989:81 ff.).

But just as the exceptional case of war promoted an acceptance across the pillars of state responsibility for social welfare, it took another exceptional development to get the welfare state expansion really going. The corporate system administering the 'postwar settlement' presupposed a discipline within the different interests that could only be achieved through well-functioning pillars (cf. Wolinetz, 1989:81). However, during the 1960's and early 1970's a process of 'de-pillarization' took place, as rapid secularization rocked the denominations, record economic growth undermined the foundations of the postwar wage-price settlement, and surging radicalism moved the center of political gravity to the left. This process even led to the so far only Dutch government dominated by parties to the left, the den Uyl Government of 1973 to 1977 (Therborn, 1989:210 f.; Van Kersbergen and Becker, 1988:490 ff.; Wolinetz, 1989:83 f.).

This changing social, political and economic environment, together with their traditional social and moral ethics, made the Catholics embark on a policy of expanding public social welfare programs during the 1960's. The most crucial reform, and the one which opened up for later growth of welfare expenditures, was the 1968 introduction of a **statutory minimum wage**, related to the average wage level in the private sector, and the linking of the lowest social benefits to this minimum wage. This lends the Dutch welfare system the 'passive' character of a system of cash transfers, automatically expanding with inflation and rising unemployment. The political reasons for this generous system of social welfare may be summarized in this way:

The Catholic Peoples Party had to compromise the interests of its labour support and of the strong catholic labour movement with the interests of its capitalist wing. Generous social security must be understood as such an accord in the context of the rather leftist politico-ideological climate..[this]. also pressed the KVP towards a position where a lasting coalition with the social democrats seemed to be inevitable or at least most plausible. To become an eligible coalition partner the social democrats in their turn had to deradicalise their socio-economic programme. Again, a generous system of social security turned out to be a viable arrangement (Van Kersbergen and Becker, 1988:495).

In other words, the pillarized, denominational base pressed the Catholic party to accommodate both demands for market voice (the Catholic workers) and market loyalty (the Catholic business community) within its policies. Its central position in the Dutch party system enabled the Catholic party to establish a long-standing hegemony over problem formulation, thus forcing the Social Democrats to essentially accept the solution of a generous, but passive welfare state, providing a smooth exit from market fluctuations (cf. Therborn, 1989:225 ff.).

This meant that the 'passive' but generous welfare state was supported by "a socialist and catholic bloc, each of which absorbed one-third of the electorate" (Van Kersbergen and Becker, 1988:495). In turn, this implied that a shift towards welfare state contraction could only come about if the balance within the cross-denominational Christian Democratic Appeal were tipped in favour of 'market loyalty' forces, thus making a pact with the Liberals rather than the Social Democrats a strategic goal. It is a sign of the prevailing strength of the pillars that this took such a long time in coming. Despite the merger between Socialist and Catholic trade unions in 1976, and despite a CDA-led coalition since 1977, it was not until 1982 that the new CDA-Liberal coalition could launch an effective program to cut welfare spending. The technique was to reduce the system's built-in *automatique* through extensive regulations of levels and eligibility. This was done over the protests of trade unions, but applauded by the business community (Wolinetz, 1989:92).

Against this background, we can now address the two questions made at the outset of this section. The reason why "housing has been able to hold its own" in politics during most of the 1980's would seem to be the prevailing strength of the pillars. Depillarization was to a large extent a change in attitudes, and in the relations between the individuals and the pillarized organizations. But even if "these institutions are increasingly challenged....they have by and large not disappeared at all." (Lijphart, 1989:140). And as Daalder (1989:14) points out, "in practice parallel groups within each of the sub-cultures found one another across ideological dividing lines, in confederal forms of concertation."

Thus, there are at least three very important factors in explaining the late arrival of privatization in Dutch housing policy. As long as there were 'confederal forms of concertation' among Housing Associations of different pillars, institutional investors and building firms pressing for State support and involvement in Dutch housing, the auspices for privatization were not very favourable. Should there, however, be a split-up between different parts in that 'confederation' of 'state' and 'market' fractions, the situation might change. But for this to result in a new policy, the pivotal Christian Democratic Appeal would have to side more definitely with one of the fractions. To use Lijphart's (1989:151) characterization of present-day Dutch politics, that party would have to be "moved from the politics of accommodation to the politics of relatively less accommodation and relatively more adversarial relations".

This is exactly what was revealed in the 1988 **Memorandum on Housing in the Nineties**. A lesser governmental role in the financing of housing production - restricted mostly to 'social' rental and 'social' owner-occupied housing - and a

targeting of consumption support to truly 'eligible' renters provide clear evidence of the increased strength of 'pro-market' groups in Dutch politics in the wake of the economic crisis around 1980. That households 'market-strong' enough to become owner occupiers should receive support through tax benefits is another sign of this shifting balance. The reactions to the **Memorandum** are also telling. Most building contractors and property developers "welcome a greater share of the market sector" (Priemus, 1989b:8).

But if the secular development towards less accommodational politics emanating from depillarization provides an explanation for the partial, 'market-strong'-directed **exit from financing**, how are we to account for the Center-Right coalition's very **muffled voice on regulation**? As was shown above, the 1988 **Memorandum** contained **deregulatory** as well as **regulatory** measures. Furthermore, there was an (alleged) shift of decision-making from central to local government in project subsidization, but central regulations of 'standard costs' for projects applying for subsidies.

The explanation may most probably be found in the interplay between institutions and ideology. The peculiar thing about the Dutch situation is that the 'market-strong' Center-Right coalition after 1982 was working in a 'liberal corporatist' setting (cf. Katzenstein, 1985:104 ff.), where many of the institutions were intact (cf. Lijphart, 1989:151), while their views on social and economic policies were gradually diverging (Wolinetz, 1989:94 f.). Inasmuch as growing ideological diversity provided the coalition with greater strategic latitude, traditional institutional - not the least the economic - relationships between the state and organized interests inevitably influenced the width of each available alternative.

In its efforts to privatize, the **Memorandum** thus followed a pro-market ideology, proposing regulatory changes to **widen** the market (freer sales from social renting, forced process toward market rents), and to make the market **more efficient** (national, more streamlined building code, 'indicative' housing production programmes). Several of these regulations were consciously formed so as to allow the central government to check the behaviour of other housing actors, and to follow up on its def financing strategy. As one observer notes, the changing relationship between government and non-profit organizations (like the Housing Associations) "is not unambiguous". There is more independence for the organizations, but also stringent government control of performance through "concentration on specific key features" (Aquina, 1988:3, 9).

As we have seen, however, the efforts to economize would primarily hit social renting (no state loans, 'forced' re-allocation regulations). For ideological reasons, the coalition government saw no problems in continuing to give financial support to home ownership. On the other hand, the institutional strength of Housing Associations probably ruled out going even further in terms of dismantling public support to social renting. To this should be added the municipalities; to keep Housing Associations alive and well would help local authorities to effectuate housing programs, and thus to satisfy local demands. It is this lingering strength of pillarised institutions in social renting, further accentuated by their special relations to local authorities, that accounts for the **Memorandum** regulations to provide 'self-

sufficiency' to Housing Associations (freer sales from social rented stock, inter-associational financial support), and 'decentralization' to municipalities (lump-sum grants, municipal decision-making on subsidies).

The **Memorandum's** regulatory measures may thus be seen as a consequence of the Dutch institutional structure. Shaking economic foundations, and widening cracks in the ideological superstructure of the Dutch society brought the 'market-strong' forces to the fore in the political center, thus paving the way for a strategy of **exit from production financing** in the housing sector. But wobbling as the pillars in the housing sector may have been, they were still standing; their prevailing strength **muffled the voice on regulation** enough to keep the walls from tumbling down over public involvement in Dutch housing.

subsidies to Housing Associations (from either local central state, inter-associational financial support) and decentralisation to municipalities (through certain municipal decision-making to subsidies).

The Minister's primary message may thus be seen as a consequence of the Dutch institutional structure. Sheltering common, residential and widening needs in the form of the political sector, this being the way for a strategy of self-production financing in the housing sector, the working as the plan in the housing sector may have been, they were still strengthening the existing strength within the need on regulation enough to keep the walls from crumbling down over public involvement in Dutch housing.

NORWAY; A MARKET UNBOUND CORNERS THE STATE

4.1 A Stable Public-Private Division of Labour; Norwegian Housing Policy 1945-1970

When Norway was freed from German occupation by the outbreak of peace in 1945, the country's housing situation was pressing. In the uppermost north, 40 000 dwellings had been totally destroyed. For obvious reasons, no new construction had occurred in the rest of the country since 1940 (NBO, 1975:9 f.). In a joint statement on postwar policy priorities, the Norwegian political parties agreed that "sufficient housing for the population was by far the most pressing human need and the most urgent public concern" (Torgersen, 1988a:5).

Despite some initial Conservative unrest, there was also general agreement on what came to be the cornerstone of the country's housing **finance** for decades. Still remembering the dismal effects on housing of the deflationary policies of the 1930's (cf. Gulbrandsen and Torgersen, 1981:9), the parties voted to establish the **State Housing Bank**, to provide stable, long-term, low-interest credit to housing. The government held on to a general policy of low interest rates way into the 1970's, thus making the Housing Bank loans an important vehicle for realizing the objective of a high and steady production (St. meld. 1981-82, nr. 12:56 f.). There were no means tests for loan seekers, but the Bank used specific **regulatory** criteria to determine the size, quality, and costs of new homes to make sure the investor would not strain his resources. Given the favourable terms of this housing finance system, investors lined up for loans (Barlindhaug, 1986:3).

But who should **produce** housing in Norway? Here a very native brand of Social Democratic ideology made itself felt. At least since the 1910's, the Norwegian Workers' Party had fought against the 'yoke of rental tenancy' brought to bear by private landlordism; in the Oslo municipal elections of 1916, the Party came out in favour of owner-occupied single-family housing (Annaniassen, 1989:89 f.). Later on it favoured co-ownership in (municipally overseen) cooperative housing and building associations (Gulbrandsen and Torgersen, 1981:18). Given the party's strong standing in Norwegian postwar politics and the traditionally strong cultural bias in favour of home ownership, public rental housing has thus never been of any significance in Norway (Torgersen, 1988b:89 f.). Furthermore, private renting (which

never extended much beyond the bigger cities) was rent-controlled and gradually withering away (Gulbrandsen, 1988a:126 f.).

In 1946, the Conservatives still fought at least a token battle on behalf of private investors in multi-family housing (cf. Gulbrandsen and Torgersen, 1981:18). But the production pattern established (and prevailing to this day) is one where detached single-family homes dominate in the countryside and in smaller towns. The Norwegian 'individualistic smallholder tradition' is revealed in the fact that from the initiation of the State Housing Bank and up to the early 1970's, **one-third** of the single-family home owners had actually built the house themselves. In medium-sized cities, semi-detached and terraced houses and blocks of flats are built by local housing cooperatives, and commonly owned by the occupants. In Oslo, such cooperatively built blocks of flats are characteristic of new production (Gulbrandsen, 1988a:127; cf. Torgersen, 1988a:6).

For more than two decades this division of labour between public and private remained remarkably stable. The state favoured new production through generous financing arrangements. The concentration on steady output figures meant that regulatory loan conditions concerning size and quality were allowed to fluctuate according to the availability of credit (cf. Torgersen, 1988a:7). Production was private, either through 'self-build' for home ownership, or through cooperative building associations (**boligbyggelag**). These built blocs and estates to be managed by cooperative housing societies (**borettslag**), with the dwellings occupied by co-owners (Nordiska Ministerrådet, 1983:65 ff.). From 1950 to 1974, 830 000 dwellings were built. About 69 percent was for individual home ownership and 18 percent, or 150 000 dwellings, went to the cooperative stock (NBO, 1975, III:2, V:2). The State Housing Bank helped financing about two-thirds of all new production (cf. below, Table 4.1). The municipalities had a responsibility for securing land for building purposes, a cause for concern given the country's geographic features (St. meld. 1967-68, nr. 63:46-48, *ibid.* 1971-72, nr. 76:10 f.).

Some peculiarities of possible future importance may be noted in this public-private mix. Institutionally, there was no special Ministry for Housing. Some housing issues were handled by a small bureau within the Ministry for Municipal and Labour Affairs, but there were few "demands or guidelines concerning administrative patterns or processes" (St. meld. 1971-72, nr 76:144). The Housing Bank loan volume, and thus housing production's share of the GNP was regulated by the Ministry of Finance through the national budget. Rent and price regulations were administered by the Ministry of Administration and Consumer Affairs (cf. Gulbrandsen and Torgersen, 1981:8).

The State Housing Bank came to hold a crucial position at the central level. Through its power to decide on individual projects applying for loans and its decisions on specific loan conditions, the Bank in effect held a key position in allocating housing among those queuing for favourable housing loans. In the home ownership sector, this came to concern one-third of all new production by the end of the 1960's. In the cooperative sector, the legally private **boligbyggelag** in the municipality distributed new cooperative dwellings according to the member households' place in the housing queue (Nordiska Ministerrådet, 1983:66). Public

allocation of rental housing was in force only in a handful of municipalities in the early 1970's (St. meld. 1974-75, nr 92:46).

Financially, the very favourable terms for new construction kept prices of new housing down to affordable levels. This was further helped by rent regulations; direct public support to housing consumption was thus of very little significance during the period. Because of the low interest and inflation rates, homeowners' right to mortgage interest deduction seemingly did not constitute a policy 'problem' during the period. But such a potential was there; higher inflation rates in combination with an adherence to low State Housing Bank interest rates would shift the burden more towards the public side (cf. Gulbrandsen and Torgersen, 1981:14). Due to some special regulations of sales prices and right of first purchase in the cooperative sector, the issues concerning the public/private mix could then be expected to shift from production figures and finance to the regulation of housing tenures.

4.2 A Public-Private Mix under Pressure; Market Developments and Policy Responses during the 1970's

Inflationary tendencies influenced Norwegian housing throughout the 1970's. The general Consumer Price Index rose from 100 in 1971 to 224 in 1980, while the index for housing construction costs went up from 100 to 271 in the same period. Between 1965 and 1971, the average annual expenditures for a new State Housing Bank-financed unit rose by 12-13 percent annually. In 1971, housing expenditures took 24 percent of the annual income of the average industrial worker, compared to 19 percent in 1965. And although the increase in male industrial worker wages kept pace with housing construction costs, the demand for owner input of capital more than quadrupled up to 1979. Then, a prospective owner of a Housing Bank-financed home had to put up one-third of the construction costs himself, a ten percent increase during the decade. Put in another way: the owner input of capital was just under the gross annual wage of an average industrial worker between 1970 and 1975, but 1,5 times that wage in 1980 (St. meld. 1981-82, nr 12:19 f.).

In a country with a strong cultural and political adherence to the value of low-cost owner occupation, such developments would of course constitute a cause for concern. Not only did inflation and market developments challenge the capabilities of public policy to help providing affordable housing to new generations of Norwegians, but they also illuminated and aggravated differences between different classes of home owners in terms of being able to reap the benefits from soaring market prices for dwellings. Owners of older units with low-interest State Housing Bank loans could enjoy relatively lower housing costs and relatively higher increases in market values because of the favourable terms of older State Housing Bank loans (cf. St. meld. 1981-82, nr 12:27, 57). Furthermore, the taxation of imputed rent became illusory as the assessment values lagged behind market prices (Gulbrandsen and Torgersen, 1981:12). But only individual owners could sell at prevailing market prices; most cooperative dwellings were subject to price control.

The decade thus saw efforts to adjust traditional goals and means of housing finance to new market realities, as well as endeavours to adjust regulations of tenures to new quests for public neutrality. The political dilemma was that where the former seemed to call for more public involvement, the second pointed in the direction of public withdrawal. In the resulting strain on the division of labour in Norwegian housing, the earlier rather insignificant indirect forms of public financial support were allowed to increase in importance.

Both the 1971-72 and 1974-75 Cabinet Reports to the Norwegian Parliament stressed the need to move from general financial support to more selective measures. For a government intent on keeping household expenditures on housing down, an obvious measure would be to complement general production subsidies with more generous, direct selective subsidies to housing consumption. The Norwegian system of means-tested housing allowances in force since 1947 was restricted to families with children under 18, and pensioners above the age of 65. In 1970, it covered only 50 000 households with an average annual benefit of only NOK 472 (St. meld. 1971-72, nr. 76:47). A new housing allowance system came into force in 1973. The public sector now gave means-tested support to families with children, pensioners, and the handicapped in accordance with 'reasonable' housing expenditure/income ratios. Those ratios were determined with a view to household size, net household income, and an optimal space standard for each household type. Allowances would decrease with increasing income, faster for small households, and more slowly for larger ones. The state was to step in with 65 percent of the difference between actual and 'reasonable' housing expenditures (St. meld. 1971-72, nr. 76:88 ff., 104; cf. NBO, 1978:27).

If the Government was sincere in shifting the emphasis from general to selective measures, another obvious target would be the so-called 'floor space subsidy' (*arealtilskudd*). This subsidy had been introduced in 1967 to compensate for the value-added tax then imposed also on housing construction. It was given to all new housing, whether financed by the State Housing Bank or not, and regardless of the economic resources of the prospective occupiers. It was by far the largest item of direct financial support to housing production, representing nearly 17 percent of the total production costs for an average State Housing Bank-financed unit in 1970. In fiscal terms, it amounted to 740 million NOK in 1971 (St. meld. 1971-72, nr. 76:73 f.). These subsidies were, however, kept in place throughout the 1970's.

With respect to housing finance, a new parity loan system was introduced in the early 1970's. It was to guarantee that housing expenditures for the first years should not exceed 20 percent of the average salary of male industrial workers. This would be achieved by demanding less than full interest payment, instead putting some of it to the debt to be paid later. The payments should furthermore be tied to rising income according to a 'repayment percentage' formula. In this way, repayments to the State Housing Bank would - at least in theory - keep better pace with inflation (St. meld. 1971-72, nr. 76:150 ff.). However, the 'repayment percentage' formula was very generous. In 1974, it meant a payment rate of four percent for the first three years. The subsequent annual adjustment, decided by Parliament, stayed well below the originally envisaged scheme (St. meld. 1981-82, nr. 12:59). With the high

inflation rates of the 1970's the parity loan system was therefore extremely favourable to new housing and the new owners of that decade (Barlindhaug, 1988:134).

Below-market interest rates on Housing Bank loans were not the only 'indirect' means by which the public sector helped financing Norwegian housing. First of all, housing units financed through loans from the State Housing Bank were in principle free from real estate taxation during the first 20 years. Second, municipal expenditures on infrastructure investments on new housing estates were not fully charged to the new inhabitants. Third, the tax on imputed rent helped subsidizing housing in two ways; (a) through the low assessed value of the dwellings and the low percentage of that value to be counted as imputed rent, and (b) through the individual homeowners' right to deduct mortgage interest from taxable income (St. meld. 1971-72, nr 76:45 ff.). Finally, there was no capital gains tax if the house had been owned for ten years or more, or if the gain was reinvested in new housing (St. meld. 1981-82, nr. 12:27).

Inflation and the continued low-interest policy sent these indirect forms of financial support skyrocketing. Tax subsidies to housing rose; increasing income levels and thus higher marginal tax rates raised the value of interest deductions. This was an opportunity that newcomers to the market began to take for granted. Such inflation-conscious behaviour obviously made it riskier for politicians to allow the assessment values, and thus the base for housing taxation, to increase (Barlindhaug, 1988:133). For one area in Oslo the reassessment in 1960 brought the assessment/market value to a ratio of 0.59. However, the next reassessment, in 1970, resulted in a 0.48 ratio. The rapid market development in the early 1970's meant that in 1973, the assessment value was down to only 30 percent of the market value (Gulbrandsen and Torgersen, 1981:11).

The housing taxation issue exploded on the Twelfth Night 1973, when the 1968 Commission on Housing Taxation recommended that home owners should continue to pay taxes on imputed rent. However, the earlier estimation of the imputed rent at 2.5 to 3 percent of the assessed value of the house should give way to a progressive system; the higher the assessed value, the higher the percentage of the taxable imputed rent. The assessed value should furthermore average 80 percent of the market value of the house (NOU, 1973:3, pp. 3 ff.).

This would have led to strong increases in housing taxation, particularly in the oil growth areas, and the reaction was nothing but extraordinary. Soon, there was a **People's Movement against Increased Housing Taxes** backed up by newspapers. Given the considerable share of the electorate potentially hit by the proposals, and the upcoming elections, politicians from Left to Right tried to distance themselves as far as possible from the Commission's report. In reality, "the proposal was killed even before it appeared in print" (Gulbrandsen and Torgersen, 1981:6, 12). The electoral storm in 1973 two years later materialized in a special rule in the Taxation Act which made it legal to let assessment values differ from the market value. As a result, assessment values did not change in nominal terms between 1973 and 1982 (St. meld. 1988-89, nr 34:47). Some estimate the ratio to have been only 0.1 in 1981 (Gulbrandsen and Torgersen, 1981:12).

This extremely favourable treatment of housing investments meant that home owners could enjoy strong increases in wealth during the 1970's. But some home owner categories were 'more equal than others' when it came to cash in on these opportunities. Where individual home owners could deduct mortgage interest payments from their taxable income, cooperative owners could not; interest payments were considered a collective matter for the whole cooperative housing society. This 'injustice' was eliminated in 1976, when cooperative owners were given the right to individual deductions (St. meld. 1981-82, nr. 12:27).

However, most important to this tenure 'justice' debate were the sales price regulations. While individual home owners with State Housing Bank loans could sell their homes at prevailing market prices, cooperative owners could not; in 86 of Norway's municipalities, a Rent Board decided on maximum prices for cooperative units. Furthermore, for co-owned dwellings in cooperative societies originally formed by a local Housing Cooperative Association, there were rules for the selection of buyers. "By means of th[e] right of the local Housing Cooperative Associations to select a buyer, almost always by the criterion of seniority, the price control by necessity became an effective one." (Gulbrandsen, 1988a:132).

There were, however, ways of getting around the price control. One was the exchange of dwellings; soon, Norwegian households were inventing untraceable methods to disguise under-the-table market-price transactions as exchange arrangements (Gulbrandsen, 1983:125 f.). A Commission on Price Regulation found that under-the-table payments occurred in 50 percent of all sales outside the 'buyer selection' sector of cooperative housing (St. meld. 1981-82, nr. 61:15). The other was to use the legal right to dissolve the cooperative and reorganize according to the condominium principle, with individual ownership of the dwellings and an owner association to take care of common areas. Such dwellings were not subject to price control (Moe and Aakre, 1983:30).

Already in 1974, the Housing Cooperatives Act was changed to stop such tenure changes. From 1976 onwards no dissolution of cooperatives with more than four units could take place without the permission of the Ministry of Labour and Local Affairs. Between 1976 and 1981 the Ministry gave permission to 67 applications, comprising 1 100 units. Small cooperatives were granted dissolution, while larger ones were turned down (St. meld. 1981-82, nr. 12:104).

The 'tenure justice' problem was further compounded by the fact that members in so-called 'free' housing cooperatives were not subjected to buyer selection rules or forced to offer their flats to the cooperative. In 1977, however, the Leftist party SV managed to slip such a clause into a package of proposed changes in the Cooperative Housing Act (**Borettsloven**). Ironically enough, even the Conservatives seem to have mistaken this limitation of ownership rights for an improvement; the change was unanimously accepted by the Parliament. The reaction in the electorate was almost as strong as in 1973; there was a **Popular Action** against this forced right of first refusal, and the Conservatives tried to capitalize on the "guerilla-like resistance" to the regulations (Gulbrandsen and Torgersen, 1981:6 f.; Gulbrandsen, 1984:27).

In retrospect, Norwegian housing in the 1970's seems to have been ridden by

contradictions. With respect to tenure regulations, the Social Democratic Government stuck to its traditional view of home ownership - cooperative as well as individual - as the most desirable form of housing tenure. So did the Bourgeois Coalition government. At the same time, however, the parties kept in place - and even widened - the price regulations in the cooperative sector. As inflation mounted and the market prices on housing rose, this created a growing market inequality between individual and cooperative owners.

In terms of housing finance, there was a continuous call for a shift from general to selective means to help those who could not otherwise get a decent dwelling. At the same time, however, the parties on both sides of the Left-Right divide stuck to the traditional, general measures to secure affordability; the low-interest policy, and the favourable treatment of housing in taxation terms. With rising inflation and strong political pressures, these general measures were allowed to grow in importance. Thus, the public sector was actually financing more and more of Norwegian housing. The distributive effects of this development - (politically convenient to both Left and Right parties) - were, to put it euphemistically, increasingly at odds with the objectives underlying the call for selective measures.

The situation had important political and economic implications. The price regulations in the cooperative sector created tensions and strains, especially within the prospective key constituencies of both the Social Democrats and the Conservatives. Holding on to this policy could thus have severe political repercussions for the party in power, particularly if another party were to step in and promise a 'liberation' of the cooperative market (cf. Gulbrandsen and Torgersen, 1976:65 ff.). And to keep the low interest policy and allow its transformation into a disguised and growing subsidy to the housing sector was to place one's bets on the continued strength of Norwegian economy. The growth following the North Sea oil boom also made competition for scarce investment capital more fierce, which might force a rethinking of the low-interest policy and of the 'merit good' character lent to housing (cf. Pugh, 1987:239).

4.3 The Public-Private Mix in Norwegian Housing by 1980; Comprehensive Public Finance Determined the Balance

Throughout the 1970's, the public sector influenced Norwegian housing through (a) regulations spanning from the acquisition of land for building purposes to the resale of dwellings in the stock, and (b) financing by means of favourable State Housing Bank loans to housing production as well as direct and indirect support to housing consumption. Whether or not these public efforts would lead to the actual production of housing was, however, not a public concern. The division of labour was thus characterized in the 1981-82 Government Report on Housing:

The final decision to build houses in Norway is, however, taken by the individual household, the individual cooperative building association or firm (gründer). The State and municipalities are to a very limited extent engaged in housing production proper, This strongly decentralized investor initiative is very special for Norway (St. meld. 1981-82, nr. 12:45).

With respect to land use planning and regulations, the municipalities could develop masterplans and municipal plans, and use detailed area plans and building permits to make binding decisions on land-use and the design of housing developments. Through successive changes in expropriation and taxation regulations, the municipalities came to hold more and more responsibility for **providing plots** - connected to the municipal infrastructure and thus ready-made for construction - at allegedly cost-covering prices. This was furthered by a special financial arrangement (Land Purchase Bonds), and through special loans from the Municipal Bank. By the end of the 1970's, municipalities thus provided about 40 percent annually of all building plots (St. meld. 1981-82, nr. 12:45, 83). From 1965 onwards, non-statutory Municipal Housing Production Programs were used as an input into the national government's annual housing budgets and rolling four-year housing programs. The annual budgets stated the projected production volume, the volume of money available to the State Housing Bank and the Agricultural Bank for housing loans, and the sum available for municipal plot acquisition (cf. St. meld. 1974-75, nr. 92:19 ff.).

As was just quoted above, actual production in Norway is traditionally private. In Table 4.1, we find that the public share of new production was marginal throughout the postwar period. The investor role played by public or semi-public rental housing in other countries has in Norway been filled by the housing cooperatives (cf. St. meld. 1981-82 nr. 12:137).

As Table 4.2 shows, two-thirds of all postwar dwellings in Norway were produced with the help of low-interest State Housing Bank or Agricultural Bank loans. Seen in relation to the total 1980 stock of 1 523 000 dwellings, state financing had in some way touched 47 percent. It should be noted that within the individually owned single-family homes sector, the share with State Housing Bank loans increased rapidly during the period, from 32 percent in 1960 to 69 percent in 1976-80

Table 4.1 Completed Dwellings in Norway, 1953-1980, by Investor Categories

Period	Total (1 000's)	Private Investors %	Coops ¹ %	State and Municipalities %	Others %
1953-1964 (Social Democrats)	350	67	30	2	1
1965-1970 (Bourgeois Coalition)	190	61	32	5	2
1971-1980 (Social Democrats) ²	392	62	30	5	3
Total 1953-1980	932	64	30	4	2

Sources: Byggearealstatistikk 1970:16, 1988:28.

¹ Includes 'linked' and 'free' cooperative as well as 'shareholder' associations; the latter form only a small part of the cooperative share.

² A short interim coalition in 1972 is included.

Table 4.2 Completed Dwellings in Norway, 1946-1980, by Financing Categories

Period	Total (1 000's)	State Housing	Other
		Bank Loans %	(Private) Financing %
1946-1964 (Social Democrats)	483	58	42
1965-1970 (Bourgeois Coalition)	190	75	25
1971-1980 ¹ (Social Democrats)	410	72	28
Total 1946-1980	1 083	66	34

Sources: Den Norske Stats Husbank 1986:77; St. meld. 1981-82, nr 12:12.

¹ The differences in total production figures for 1971-1980 in Tables 4.1 and 4.2 are explained by different data sources.

(Gulbrandsen, 1988a:137). The 1973 'parity' loans proved very favourable; a household moving into a new Housing Bank-financed home in 1973 was still enjoying a 'repayment percentage' of about 5.5 in 1979 to be compared with the prevailing interest rate of 11 percent on housing loans taken in private banks (St. meld. 1981-82 nr. 12:59; cf. Grevstad and Bysveen, 1988:3, 57). To this should be added the fact that the difference between the state bond interest paid by the Bank to its lenders and the rates charged to the borrowers meant a subsidy of more than 900 million NOK in 1980 (St. meld. 1981-82 nr. 12:10 f.; cf. Gulbrandsen, 1988a:137).

Production was furthermore subsidized through (a) non-cost-covering prices on municipally developed building plots, and (b) floor-space subsidies to neutralize the effects of the value-added tax on building material. Consumption was subsidized through (a) means-tested housing allowances to certain groups of households, and (b) through homeowners' right to deduction of mortgage interest from taxable income and (c) 'under-taxation' of housing.

In what turned out a rare occasion of openness, the 1971-72 Government Report to Parliament gave an account of all different forms of financial support going to housing. All in all, the Report estimated the subsidies to nearly 2.3 billion NOK in 1971. About 300 million NOK came from the below-market interests charged by the State Housing Bank, and 900 million concerned 'under-taxation' of housing. Subsidies on municipally developed plots amounted to 150 million NOK, while housing allowances amounted to 37 million (St. meld. 1971-72, nr 76:45 ff.). Floor-space subsidies amounted to 800 million NOK in 1971, but subsequent limitations of the maximum space eligible for subsidy, and a continued maximum amount per unit produced despite soaring construction costs, resulted in a reduction of its importance. This subsidy covered 17 percent of the production costs of State Housing Bank-financed homes in 1970, but its share of such costs was less than

seven percent ten years later (St. meld. 1981-82, nr. 12:62).

Under the 1973 system for housing allowances, the state stepped in to cover a certain percentage of the difference between actual and 'reasonable' housing expenditure/income ratios. This percentage was risen to 70-80 by the end of the 1970's. Housing allowances were given to 113 000 households in 1980, or 7.5 percent of all Norwegian households. The total public expenditure was 369 million NOK (St. meld. 1981-82, nr 12:72, 76).

The changes in the Taxation Act in 1975 meant that the assessment values did not change in nominal terms between 1973 and 1982 (St. meld. 1988-89, nr 34:47). In a minority view from the Housing Cost Commission, it was estimated that tax subsidies to Norwegian housing amounted to 2.5 billion NOK in 1980. Together, the public subsidies may have been 4 billion, or about 11 percent of total housing 'consumption and investment' in 1980 (Cf. St. meld. 1981-82, nr. 12:10 f., 167 minority view).

Figure 4.1 The Public-Private Mix in Norwegian Housing in 1980: The Extent of Public Responsibility for Main Activities

Activity	Object	Extent of Public Responsibility
Regulation	Housing Production	Municipal control of location through planning of land used for housing and development of plots for 40% of new housing
		National government control of quantity and price through loan frames to State Housing Bank and Bank rules for loan applications
		Municipal control of quality of all new housing through building permits
	Housing Consumption	National control on sales prices in most of the cooperative sector
Financing	Housing Production	Low-interest State Housing Bank loans to 70% of all new housing
		Floor-space subsidies to all new housing, covering 7% of costs
	Housing Consumption	Public housing allowances to 7% of the renters
		Tax deductions on mortgage interest for (at least) two-thirds of individual and 12% of cooperative owners*
Production		State and municipalities acted as investors in 2% of new production

* Cf. Boforholdsundersökelsen 1981:74, 86, 90.

Let us summarize the Norwegian 1980 mix of public and private responsibilities in housing. As Figure 4.1 shows, the Norwegian policy was less comprehensive than, e.g., its Dutch counterpart. Housing allocation was much less of a public responsibility both in the production and consumption phases. It is worth repeating that a large part of the allocation in the cooperative sector was a matter for private regulation; the *boligbyggelag* in the municipalities administered the queue for new dwellings, and made decisions for individual admissions in the stock. Also notable is the reliance on general subsidies to housing via the financing and taxation systems; despite stated objectives to the contrary, selective consumption subsidies remained small and limited. Finally, the very limited public role in new production is a special Norwegian feature. One may say that the mix reflects the 'selectively comprehensive' character of the Norwegian policy; ownership is clearly favoured through general measures.

4.4 The Institutional Setting of Norwegian Housing in 1980; An Autonomous Financing Bureaucracy in a Partly Mobilized Network

Despite the strains put on it in the 1970's, the public-private mix in housing developed right after the war remained quite stable. Describing it as a "cooperation between the state, municipalities and private interests, including the housing cooperatives", the Social Democratic Government said in 1981 that there was no "reason for considerable change in this division of labour and responsibilities in the years to come." (St. meld, 1981-82, nr. 12:46).

What possibilities for privatization had this institutionalized public-private mix opened up by the early 1980's? If one looks at the distribution of households according to tenure, 75 percent had an owner-occupier status in 1981. The cooperative owners were subject to some limitations in their freedom of disposal; there was thus some potential for privatization through deregulation.

Table 4.3 Norwegian Households According to Tenure, 1967-1981.

Year	Type of Tenure			
	Owner Occupation		Renting	Other
	Individual	Cooperative		
1967	59	11	23	7
1973	59	12	17	12
1981	59	16	14	11

Sources: NOS 1974;90, 1983:74. Survey of Housing Conditions 1973 and 1981, respectively.

Table 4.4 The Norwegian Housing Stock According to Ownership, 1950-1981

Year	Owner Category			
	Private Persons and Firms	Owner Occupiers	Cooperatives	State and Municipalities
1950		96	3	1
1970		83	15	2
1981	18		59	19

Sources: NBO 1975, II:6; NOS 1983:74.

However, Table 4.3 should not be read as indicating that 25 percent of the housing sector could be privatized through dispossession of public rental housing. A large part of the renters were in the cooperative sector, in the dwindling private rental sector, or renting from their relatives or employers. As we have indicated earlier, the public investment and ownership in the rental housing sector has been very limited since 1945. As Table 4.4 shows, the public ownership of dwellings was as low four percent by the early 1980's. Since much of this concerned dwellings for elderly, handicapped, etc., privatization through the sale of public assets was thus not much of an option in Norway (cf. Lian, 1988:33).

Thus, the main alternatives for privatization were 'definancing' and deregulation. For this to happen, however, there ought to be no stumbling blocks within the institutional setting of Norwegian housing. In other words, the political leverage of those crying for such reforms must outweigh the power of the institutions established by and getting their strength from existing systems of finance and regulation.

As was briefly touched upon earlier, Norwegian postwar housing was characterized by an active cooperation between the state and the municipalities on the one hand, and private sector on the other, with the latter including banks, building firms, and individual and cooperative investors. At the national level, there was no ministry for housing, only a Housing Division within the Ministry of Municipal and Labour Market Affairs. The national government was responsible for (a) developing four-year long-term programs for housing; (b) setting production volume targets; (c) determining how much money should be allocated to the State Housing Bank for loans to housing production and renewal, and to the Municipal Bank for land acquisition and plot development, and (d) allocating money to direct subsidies, such as floor-space subsidies, housing allowances, and subsidies to housing renewal (St. meld. 1981-82, nr. 12:44).

Apart from developing and promulgating binding master and detail plans for land use and housing location, the municipalities also were expected to present Housing Provision Programs. Developed annually as part of rolling four-year plans, the programs gave information about municipal acquisition and provision of plots, as well as about estimated necessary production volumes (St. meld. 1981-82, nr. 12:45).

As much as this seems to indicate interdependencies between state and local

levels, it should not obscure the pivotal position of the State Housing Bank. According to one observer,

the basis for production targets is, i.a., the estimates of housing demand provided by the Housing Bank to the Ministry....such estimates are used both in connection with target-setting for the whole country and as a basis for housing programs for each individual municipality....housing demand is affected, if not dictated, by housing policy, by lending frames and loan conditions of the State Housing Bank. (Hansen, 1984:7).

The Parliament thus decided on lending volumes, and issued recommendations as to how many dwellings should be given loans on the basis of figures delivered by the State Housing Bank. Within this general framework, the Bank developed loan conditions through so-called 'type house' criteria. These criteria functioned as signals to investors and building firms about the balance to be struck among quality, size, costs, and amenities in order to qualify for loans. Through its regional and local branches and inspectors, the Bank checked and cleared each individual housing project with regard to the features just mentioned, to assure a 'sober' standard as well as affordability (St. meld. 1981-82, nr. 12:45 ff.; Grevstad and Bysveen 1988a:passim). Since the favourable and not means-tested State Housing Bank lending concerned between two-thirds and three-quarters of annual new production, it is easy to see its crucial position in determining what should be produced where and at what price.

For the public sector to withdraw from financing new housing, or limiting the State Housing Bank lending to 'needy' borrowers - as several of the private finance institutions recommended (cf. St. meld. 1981.82, nr. 12:34 f.) - would meet with strong obstacles. First, there was the Housing Bank's strong institutional position; its personnel and functions were simply overwhelming in relation to the modest Housing Division in the Ministry for Municipal and Labour Market Affairs and the absence of a National Housing Board like the one in Sweden. Second, there was the political cost of offending all the prospective, albeit non-organized, borrowers who stood to lose the favourable loan conditions of the Bank.

As we have seen, most of the investors in Norway were individual households. But a strong position was held by the most 'Norwegian' part of the country's housing sector, i.e., the cooperative movement. As indicated earlier, there were Housing Cooperative Associations in many or most municipalities, responsible for organizing the production of new cooperative housing, and distributing such housing among the households on their waiting lists according to seniority. Households in those buildings or estates were then organized in housing cooperatives, responsible for managing the common parts of the buildings. At the national level, the HCA's were organized in a Federation, the NBBL, which functioned as a strong lobby organization. In the larger municipalities, and particularly in Oslo, the BBL's came to hold a position equal to, or more important than the public local housing administration. Thus, the cooperative movement represented a highly mobilized institutional force in housing, adhering to the postwar tradition of strong national involvement in housing finance (Gulbrandsen, 1983:106 ff.).

For the Norwegian Social Democrats to make any large-scale change in public finance would be to stab an ally in the back; the Social Democrats had, as we have seen, favoured the cooperative housing movement for most of the century (cf. Gulbrandsen, 1983, ch. 1). But as we have also noted, the negative effects on cooperative owners from existing price regulations were threatening to sever much of that block of voters from the Social Democrats. This came out clearly in the Oslo municipal elections in 1975 (Gulbrandsen and Torgersen, 1976).

Another way of privatizing would be to withdraw from financing housing consumption. However, to cut off direct consumption subsidies, i.e., housing allowances, would hit the elderly and the handicapped as well as demonstrably needy households with children. The 400 million NOK given in allowances represented 10 percent of all public financial support, but a lot of political sympathy could be amassed for the receiving groups. Furthermore, to touch the indirect subsidies to housing consumption - tax exemptions, tax expenditures, etc. - would be politically even riskier. The three-fourths of all Norwegian households enjoying such support could easily turn against any political party proposing such a move.

What, then, could a privatizing government do? One thing would be to skip the floor-space subsidy. Its obviousness in the budget, and its non-social profile made it a possible target. Besides, it had gradually lost much of its importance, and the money could be used for selective measures or for new lending policies of the Housing Bank. But primary on the list of possible privatization measures would be the deregulation of cooperative housing, to make it comparable to individually ownership in terms of marketability and profitability. The question then, would be who would be the first to try to benefit politically from making such a move in housing policy; the Social Democrats with their close links to the institutionalized structures of postwar policy, or the Conservatives with their market and individual ownership bias and less fraternal connections with the top segments of the cooperative sector?

4.5 'Unfettering the Market'? Norwegian Housing in the 1980's

Despite widespread discontent with the regulatory 'dualism' it seemed like the Social Democrats would hold on to that as well as to the other feature of postwar housing policy, i.e. the dominant role of the State Housing Bank in housing finance. In their Housing Message to Parliament of July 1981, they proposed (1) to keep the price regulations in the cooperative and rental sectors; (2) to continue the restrictive policy towards dissolution of housing cooperatives; (3) to restrict the possibility of condominium conversions in the existing stock (St. meld. 1981-82, nr. 12:51, 101 ff.), and (4) to strengthen the sales regulations in the cooperative sector (Gulbrandsen, 1989:9). Furthermore, they (5) abolished the floor-space subsidy to make room for more selective measures, and (6) introduced a new loan system, involving a de-escalating interest subsidy for the first 6 years of the loan period (St. meld. 1981-82, nr. 12:54 ff.; cf. Barlindhaug, 1986:6).

However, the strong Right-wing wave in the 1981 elections washed the Social

Democrats away from power. For the first time since the war, the Conservatives were in a position to form a government of their own. They soon showed their readiness to realize election promises of housing market liberalization.

Deregulation was the keyword; freeing the cooperative market and making it equal to that of owner occupation would allow for a more effective use of the housing stock, and make room for truly redistributive measures towards those in real need. Paying lip-service to the argument that price control may be advantageous to buyers coming into the housing market, the Conservatives now wanted to focus more on the seller. No group of owners should be discriminated on the market or shackled by bureaucratic superstructures. Thus, there should no longer be any sales price regulations for 'free' housing cooperatives. For cooperatives connected to municipal cooperative associations, the assessed values would be set in such a way as to allow continually close relations to market prices. 'Free' cooperatives could now be dissolved without ministerial approval. As many as 75 000 dwellings in 'free' cooperatives, and 200 000 in BBL-connected cooperatives were concerned. Condominium conversions would be allowed in the private rental stock, not just as a tenure form in new production (St. meld. 1981-82, nr. 61, pp. 4 ff.).

It is not far off the mark to argue that these 1982-83 deregulations were tailored to reap the benefits of the widespread discontent with sales regulations that had led to opinion outbursts in the 1970's (cf. Gulbrandsen and Torgersen, 1974; Gulbrandsen, 1983:183). However, the Conservative Government was not acting only to satisfy immediate housing consumer demands. Its principal argument of 'efficient resource use' also led it to propose **definancing**. Upholding the earlier government's decision to scrap the floor space subsidy, the Conservatives now also (a) substantially lowered the share of new production financed by State Housing Bank loans, (b) increased the number of loans on 'special terms' (PSV-loans), (c) made deals with private banks and lending institutions to provide special housing loans to cover 20 percent of the production costs, and (d) improved the conditions for house savings accounts (St. meld. 1981-82, nr. 61:11 f.).

What happened over the next years could best be described as a clash between sectoral policies. For at the same time as cooperative housing sales (as well as condominium conversions) were deregulated and there was a high output of new dwellings on the market, the credit market came under the heaviest regulations ever. This made it very difficult to get loans in the banks. There were both 'grey' loan markets and frantic efforts from the sellers to provide new forms of credit. The effect of the credit market restrictions was to render the **deregulation** in cooperative housing meaningless; for a long time, demand was too low for the sales prices to reach the statutory price limits (Barlindhaug, 1988:138).

The situation changed from 1984 when the credit market was deregulated. Restricted credit and low demand in the preceding years had decreased the building activity. Now the decreasing output of new housing did not match the volume of available credit. Consequently, prices in the stock soared in 1986-1987, again making statutory price limits a **de facto** regulation of the housing market. In the most attractive parts of Oslo, prices in the second quarter of 1986 were 100 percent

above the average price ceiling. This led to further demands for a final abolishing of all such regulations. In 1987, the Parliament lifted all price regulations on co-owned dwellings older than 7 years (Rödseth and Skogstad, 1989:227).

Some effects of these events and trends on the public-private mix in the financing of new housing production are revealed in Table 4.5. There was a decrease in the State Housing Bank's share, from nearly two-thirds in 1981 to just over two-fifths in 1987. And while the 'special term' loans held rather steady, 'purely' private financing increased throughout the period. It is also clear that the free credit market after 1984 led to a drastic increase in the private share of credit volumes to housing; actual market provision of credits was far higher than that envisaged by governmental 'credit budgets' (NOU, 1989:1, *passim*).

If the Conservative Government's aim had been to further strengthen the position of owner-occupied, market-disposable housing in Norway, the reforms of the early 1980's indeed bore fruit. Individual and cooperative home ownership increased from 77 to 82 percent by 1988. The share of individual ownership increased from 59 to 67 percent according to some surveys (cf. Lian, 1988:*passim*, and Gulbrandsen, 1989:53 f.). This may to a large extent be a result of the deregulation of housing cooperative dissolution, and the ensuing condominium conversions. Cooperative ownership decreased from 18 to 14 percent (Wessel, 1989; Gulbrandsen, 1989:53).

When the Conservatives argued for a 'freer' housing market back in 1982, their reasoning was lopsided in a way typical for 'market-strong' parties. For the market to be 'free' there can be few, if any, restrictions on the owners' freedom of disposal, and there should be no regulation on prices. At the same time, however, there is a surprising silence with respect to the necessity to withdraw public subsidies to consumption of owner-occupied housing. Subsidies via tax regulations seem to be taken for granted or seen as perfectly compatible with a 'free' market.

Table 4.5 Completed Dwellings in Norway, 1981-1987, by Financing Categories

Year	Total (1 000's)	State Housing Bank loans %	Private financing	
			All loans %	Special Term loans %
1981	35	63	37	17
1982	38	56	44	14
1983	33	57	43	17
1984	31	57	43	18
1985	26	59	41	12
1986	26	51	49	8
1987	28	43	57	17

Source: St. meld. 1988/89, nr. 34:29

The Norwegian Conservatives thus did not touch the generous taxation rules in their efforts to unfetter the market. Given the development of housing costs, rising incomes and interest rates, and the increased reliance on non-subsidized private loans in the 1980's, the result could be but one; a higher public involvement in the consumption of housing via tax deductions on housing mortgage interest.

We know that interest subsidies on State Housing Bank loans reached 1.4 billion NOK in 1986, after having been down to half of that in nominal terms in 1983 (Barlindhaug, 1986:22). It is, however, difficult to get exact figures for the total indirect public financing of housing consumption. But even if studies usually do not include the effects of mortgage interest deductions (cf. Barlindhaug, 1988), some estimates can be made. The average interest deduction for income earners in 1986 was NOK 14 700 (St. meld. 1988-89, nr. 34:48). Knowing that the average Norwegian's mortgage debt constituted 54 percent of all his or her debts (Gulbrandsen, 1988b:9), and assuming the same interest rate for all types of debts, we can approximate the average mortgage interest payment to NOK 8 000. From this we must deduct the imputed rent which averaged NOK 700 in 1986 (St. meld. 1988-89, nr 34:48), arriving at an average mortgage interest deduction of NOK 7 300. Knowing that about 80 percent of the 1.7 million dwellings in 1987 were owner-occupied, and estimating the average marginal tax rate as low as 50 percent, we arrive at a total tax deduction of 4.75 billion NOK, a near doubling since 1980 (cf. above).

Both interest subsidies and indirect subsidies via tax regulations are general and 'income-blind' in character. But the explicit objective of both Social Democratic and Conservative governments has been to decrease such measures, and to increase the selective character of public involvement in order to direct support to those really needing it (cf. St. meld. 1981-82, nr. 12:48, Social Democrats) The Conservatives even argued that a furthering of market principles in the housing sector would leave more room for selective public measures (St. meld, 1981-82, nr. 61:10, Conservatives).

Given the expansion of general policy measures, it should come as no surprise that the selective measures decreased in importance during the 1980's. The number of households receiving housing allowances went down from 97 000 in 1981 to 68 000 in 1988. And although the monthly allowance increased, the rent/income ratio after allowances increased from 22 to 32 percent during the same period (St. meld. 1988-89, nr. 34:161).

When the Norwegian Conservatives came to power in 1982, later in coalitions with the other Bourgeois parties, they thus embarked on a privatization policy we predict for 'market-strong' parties. They wanted a greater role for the private credit market in housing finance, and an unfettered market for successive transactions in the stock, all to secure an 'effective use of resources'. Direct subsidies should, as far as possible, be given to groups with evident need. On the other hand, the Conservatives did not touch the indirect subsidies to owner-occupied housing consumption, a deviation from the belief in the market attributable to their ideological bias towards ownership as well as a strategic necessity stand given the dominance of this tenure in Norway.

The question, then, is whether the Social-Democratic comeback to power after the Conservative stepdown in 1986 has tended to change the public-private mix back to more public involvement through regulation and finance. If the 1988-89 Report on housing to Parliament is a reliable indicator, the answer must be a hesitant "No". Admittedly, the Social Democrats claim that the development toward a freer housing market in the 1980's has not been a godsend for all households. Furthermore, they seem to admit that subsidies have sparked wealth accumulation as much as they have helped in housing acquisition. Thus, the Conservative policies have not provided for an effective use of resources. However, they also explicitly state that public involvement in housing must proceed from two principles; (a) housing expenditures should be determined by the 'relatively' free price development in both the housing and credit markets, and (b) house prices should be determined by the free interplay between seller and buyer (St. meld. 1988-89, nr. 34:58 ff.).

In this 'relatively' free market, public sector responsibilities are limited to two things; (a) to guarantee a steady production of 'sober standard' dwellings in order to provide a balance of supply and demand as well as an effective use of resources, and (b) to provide affordable housing for households in real need.

The State Housing Bank should finance two-thirds of new production. However, a substantial part of this should be done through the 'Type II loans', introduced in 1987 and containing no interest subsidy. The Government also lifted all credit 'frames' from private bond institutions providing housing loans. Price regulations should concern only housing with (subsidized) State Housing Bank loans. In practice this means two-thirds of the last seven years of new production, or less than 10 percent of the stock in any given year. No extension of the limited system of housing allowances was envisaged (St. meld. 1988.89, nr. 34:14, 61 ff.).

The most conspicuous break with the earlier Conservative policy concerned the tax benefits from housing. The right to deduct mortgage interest from taxable income was reduced somewhat for higher income groups with high marginal tax rates, which in fact 'privatized' some of the economic burden of housing consumption. The Social Democrats also wanted to adjust the system of housing taxation so that the public sector would not contribute to wealth accumulation through under-taxation (St. meld, 1988-89, nr. 34:46, 62, 66).

But the remaining impression is a change of view; the boundaries between public and private established during the Conservative era would for all practical purposes be unchanged. The unfettering of the market and the privatization of the price mechanism through deregulations now seemed accepted. The greater role for private financing and for non-subsidized State Housing Bank loans was to be kept. The public responsibility for housing to those in real need would be as limited as before.

4.6 Explaining the Norwegian Pattern; When Ownership is Occupying the Stage, the Show Must Go On

Why did the public-private mix in the Norwegian housing sector take this turn in

the 1980's? Why was the boundary so clearly redrawn to widen the private, and to limit the public, sphere of responsibility? How come this change took on the pattern of **deregulation and partial retreat from financing**? And why was this seemingly accepted in the end also by those who, according to our theory, should have adhered to another much more 'market weak'-favouring policy? Was it a coherent ideology, a favourable institutional structure, mounting interest pressure, or a combination of such factors that led to this pattern of change?

The explanations we will pursue here follow the last line. We will argue that peculiarities in the institutional structure of the Norwegian housing sector, in no small part a heritage from previous housing policies, helped creating a 'niche' for political reforms going in the direction of privatization. But we will also argue that it took a shift in the balance of power between the political blocs to tap that opportunity. Only when the Conservatives, free as they were from ideological and institutional linkages to the leading interest organization - the **NBBL, Norsk Boligbyggelag** - came into power with a 'market-strong' ideology of 'owner power' across all tenures, could the popular desire for deregulation be satisfied. Furthermore, we will argue that the changing structure of the Norwegian economy, in combination with dramatic shifts in credit market policies and an aggressive banking business, in no small measure helped creating the shift from the 'sober standard', 'home-is-castle' sector of the postwar decades to the 'free-wheeling', 'home-as-investment' market of the late 1980's.

Let us begin with the structure of the Norwegian housing sector in the early 1980's. As a result of the historic adherence to a philosophy of ownership and 'self-build', 59 percent of all Norwegian households were homeowners in 1981. Another 18 percent were cooperative owners; in the capital of Oslo, their share of the housing sector was as high as 40 percent. As we have noted throughout, the Norwegian cooperative sector operated with a considerable degree of self-regulation. Building cooperatives allocated not just the new production, but also successions in the stock, the latter under strict control of transaction prices. Nationwide, the building cooperatives - (which helped forming the housing cooperatives once estates or buildings were completed in accordance with the allocation principles just mentioned) - were federated in the **NBBL**. Ideologically affiliated with the Social Democrats, this organization came to hold a strong position in Norwegian housing. This position was probably stronger than the numerical strength of their part of the cooperative sector would suggest, since the individual homeowners were less well organized (cf. Gulbrandsen, 1983:160).

But saying that the growing unrest and protests among cooperative owners in the late 1970's was pivotal in bringing about the changes in the public-private mix in Norwegian housing is only to skim the surface. Why was the cooperative self-regulation with its limiting of the cooperative owners' freedom of disposal found discriminating at that particular point in time? Were regulatory policy proposals the cause, or should we also look for broader tendencies underneath?

Yes, we should. Several trends combined to make Norway a 'changed' society by 1980, compared with the early postwar period. Economically, the most important change occurred when Norway became an 'oil' and 'service' rather than agricultural

and fisheries economy (cf. Lafferty, 1990). Between 1957 and 1985 blue collar workers and people engaged in the primary sector decreased from 70 to 45 percent of the labour force, while white collar groups and secondary-tertiary sector personnel grew correspondingly. Incomes soared and purchasing power increased; GNP per capita doubled in fixed prices between 1960 and 1978 (Aardal and Valen, 1989:199). The most ardent protests against the price regulations in the housing market emanated from the Rogaland area, where the oil boom had led to dramatic increases in housing demand.

Demographically, the urbanization had begun to change the traditionally rural Norway during the 1960's and 1970's. By 1980, 70 percent of the population lived in urban areas. A change away from the traditional language (*nynorsk*), temperance, and religious cleavages towards a more urbanized culture was also discernible. The number of university-level students doubled between 1960 and 1980. Politically, the influx to the larger cities of often well-educated young people with good incomes led to a swing to the right. Between 1960 and 1985 the Conservatives and the Progressive Party (an ultra right-wing party) increased their share of voters in the six largest cities from 31 to 47 percent (Aardal and Valen, 1989:199, 236, 242).

These broader trends combined to put pressure on the housing market in the cities. Since housing in the larger cities was to a large extent cooperative and access-regulated - (in Oslo, 40 percent) - incoming households without seniority in the queue stood little chance of acquiring a cooperative dwelling.

As was shown above, this led to a sellers' market in the larger cities. When real estate prices soared in the non-regulated sector, the 'opportunity costs' of owners/potential sellers in the regulated market became more and more visible. This led to a widening black market which - interestingly enough - was both most widely experienced and accepted by those buyer categories with the longest education (Gulbrandsen and Torgersen, 1974). In effect, a fundamental change of mind was taking place within the cooperative sector. A study made in Oslo showed that between 1964 and 1978, the share of households in cooperative dwellings seeing themselves as owners rather than tenants increased from 26 to 62 percent (Gulbrandsen, 1983:130 ff., 155).

Consequently, demands for deregulation became stronger; groups less adherent to traditional cooperative principles and more able to appreciate, and more ready to accept, market possibilities became a critical mass among prospective sellers and buyers. The clash between market developments and public regulations created a political situation with great potential rewards for a 'market-strong' party willing and able to exploit it.

As we have seen, that is exactly what the Conservatives did when they reached national power in 1981. But while the **choice** and **timing** of deregulation can be explained by this convergence of large-scale structural trends, market and tenure developments, and majority shifts in politics, we are left with at least two further problems of explanation. What made the Conservatives go for the particular **pattern** of deregulation which they applied from 1981 onwards? And why did they not opt for a more thoroughgoing **definancing** of housing production, as we predicted 'market-strong' parties would do?

The first of these questions refer to the fact that the conservatives (a) allowed condominium conversions in the rental stock, (b) exempted 'free' cooperatives from sales price regulations, and (c) allowed the assessed value of cooperatives associated to 'municipal' building cooperatives to increase in such way that it would be close to the market price, but (d) did not take away the right for building cooperatives to issue bylaws to the effect that dissolutions of their associated housing cooperatives would be blocked (St. meld. 1981-82, nr.61:20).

It can be argued that the particular constellation of institutional patterns, earlier policy, and actor motivations played a significant role here. As we have seen, a main feature of Social-Democratic housing policy was to free the households from the 'yoke of landlordism'. The result was that investors withdrew from private renting. The rental stock decreased and dilapidated under the influence of rent regulations. Furthermore, the landlord organization diminished both in size and influence as condominiums began to take a share of new production, and conversions occurred in the stock. Several efforts to strengthen the organization by widening its appeal to condo owners and to the increasingly 'owner'-inclined cooperative households were made in the 1970's (Gulbrandsen, 1983:161 ff.).

For the conservatives with their appreciation of ownership and market, it may have been natural to allow condominium conversions and exempt 'free' cooperatives from price regulations. In one stroke, such a move would satisfy 'market-strong' segments able to utilize such opportunities. Furthermore, allowing conversions in the rental stock would favour landlords. International experience suggests that they can make more money from flat break-ups than from continued renting. This is particularly the case under conditions of rent regulation, and indeed are initiators of such break-up processes (cf. Hamnett and Randolph, 1988:12 ff.). It is notable that the Norwegian Landlord Association, traditionally a stronghold for the Conservatives, favoured conversions, as did *Norsk Boligsameie*, an association of owners in the 'free' cooperative sector (St. meld, 1981-82, nr. 61:28).

But another consequence of earlier housing policy was the growth of the cooperative sector organized around the (municipally based) building cooperatives. Here, the Conservatives would have to tread more carefully. To 'unfetter' the cooperative market by lifting price and sales restrictions would threaten the system of 'self-regulation' practiced by the building cooperatives, and thus challenge their strong bureaucracies (cf. Gulbrandsen, 1983:183).

On the other hand, to improve the market position of prospective sellers in the 'free' cooperatives but not for their counterparts in the numerically larger 'associated' cooperative sector would be politically foolish, given the strengthened 'owner' feelings also among those owners. The most obvious solution was also the one chosen. On the one hand, the Conservatives allowed the individual owners to 'cash in' on market developments by setting high price limits and letting these limits increase by an annual percentage. On the other, they left control over housing cooperatives to building cooperative bureaucracies through the right to issue bylaws against dissolutions. To the 'market-weak' segments, the Conservatives could argue that prices would still be regulated; the higher assessed values would function as price limits in an overheated market.

Why did not the Conservatives try to withdraw the public sector totally from **financing** new housing production? Here, they seemed to face an ideological and strategic dilemma, not the least because of the institutional pattern and public expectations built up through earlier policy, and compounded by the economic situation of the early 1980's. On the one hand, argued the Conservatives, "it is not reasonable when the 'social' and directly subsidized housing comprises 70 percent of all new production". On the other hand, the central objective must be that "everyone who wishes to own his dwelling should be able to do so at a cost which is reasonable in relation to his income" (St. meld, 1981-82, nr. 63:10 ff.). Whereas the first argument indicated an inefficient use of resources - (something the Conservatives dreaded) - as well as problems for the then very tight credit market, the second pointed towards a continued general and direct support to housing production.

Indeed, traditional housing policy may have severely restricted Conservative choice. First of all, two-thirds of all postwar housing had been built with cheap State Housing Bank loans, with ownership as the totally dominating form of tenure. To cut off such lending would be equivalent to driving a wedge between those already enjoying such subsidized housing and those aspiring to get that possibility. The Conservatives had held on to the principle of 'affordable home ownership', and profited politically from this posture. Cutting off cheap lending to new production would have spelled political disaster in a situation when desires for home ownership were more widespread than ever, and inflation and tight monetary policies drove interest rates upward (cf. Pugh, 1987:228).

But could not affordable home ownership be achieved without keeping the institution, i.e., the State Housing Bank? The postwar housing policy was in many ways synonymous with the Bank; its lending and cost control policies were decisive for achieving the goal of widespread, affordable home ownership, argued the Housing Cost Commission in its 1981 report (St. meld. 1981-82, nr. 12, encl. 1:132 ff.). And even if the prewar distrust of credit institutions was gone and had become substituted for by a more risk-taking, positive attitude towards debt by the end of the 1970's (cf. Gulbrandsen, 1988b:5), studies of housing markets outside the largest cities suggest that Housing Bank loans still were central in helping young households with modest incomes to become home owners (Grevstad and Bysveen, 1988b:164 f.).

Obviously, there was no easy way out for the Conservatives. Ideological commitments to home ownership and considerations of possible gains in the electorate favoured a continued strong role for the institution of the State Housing Bank. Ideas about the blessings to effective resource use from a free, competitive financial market, as well as the close links between the party and Norwegian business and finance, pointed towards public withdrawal from direct and subsidized public financing of new production. The strategy chosen reflects this dilemma. Agreements with private lending institutions on favourable rates and conditions for housing loans would hopefully please prospective buyers, and the assurances of a greater private role in housing finance would be good news for the banks. As was shown in Table 4.5 above, private financing of new production rose from 37 to 57 percent

between 1981 and 1987. Private lending to transactions in the stock also rose, very much as a result of the new monetary policy after 1984 (cf. Gulbrandsen, 1989:18 ff.).

The results of this Conservative financing policy are somewhat paradoxical (cf. Torgersen, 1984b). The **partial definancing** of housing production can be termed 'market strong' in the sense that the greater role for private, non-subsidized loans made housing investments more expensive, and thus less affordable for 'market-weak' households. On the other hand, rapidly increasing costs, and the aggressive lending from private financing institutions to purchases in the stock left the Norwegian economy as a whole with a larger debt in the housing sector than ever before. At the same time, the buyers/owners still enjoyed very generous tax favours on housing investments, more generous the more 'market-strong' the household (cf. St. meld. 1988-89, nr. 34:47 f.). The end result was a higher degree of public involvement in total housing finance than before.

In retrospect, it is easy to see that in their efforts to strike a balance between conflicting principles, the Norwegian Conservatives were willing to sacrifice one sacred cow - 'Effective use of resources' - to save another - 'Affordable home ownership' (cf. Torgersen, 1988a:17). To save the former and make all forms of investments equally attractive would have necessitated making households weaker in the housing market by taking away all tax favours attached to housing. And that would have turned the bulk of actual and prospective home owners against the Conservatives. For strategic reasons, the party never touched the right to deduct mortgage interest from taxable income, and allowed the housing taxes to lag behind the soaring values of housing. After a generation of building for, and subsidizing home ownership, the options in Norwegian housing policy had become very limited indeed.

Is this also the explanation to the Social Democrats' changing emphasis in housing policy between 1981 and 1988? For a change there was from 'steering' to 'adjustment', as these quotes reveal:

It is very important for many housing consumers that part of the housing stock - particularly in the larger cities - is subjected to sales and price regulations... State subsidies will then stay linked to the dwelling and cannot be cashed in by the individual seller (St. meld. 1981-82, nr. 12:51).

The point of departure is that the future housing market will be considerably changed in relation to the more regulated markets of the 60's, 70's, and early 80's...The housing policy for the 90's must accept that housing expenditures are determined by a relatively free price development in both the housing and credit markets...The Ministry takes the view that prices in the housing market are formed through free contracts between seller and buyer (St. meld. 1988-89, nr. 34:9, 58, 64).

The Social Democratic minority government had limited the home owners' right to deduct mortgage interest from taxable income in 1987. In their 1989 Housing Report, however, they seem to take for granted much of the changes in the housing

sector during the 1980's. Regulation is out, and the position of the state in housing production finance is relatively unchanged. No doubt the Social Democrats had learned the lesson of the 1970's and early 1980's, when their regulatory policies brought distinctive costs to an increasing number of potential sellers which directly translated into political losses, while the Conservatives enjoyed the opposite situation (Gulbrandsen, 1983:178 ff.).

Furthermore, the share of marketable housing, and thus the share of potential sellers, had increased during the 1980's, to comprise four-fifths of all households. Under such circumstances, any retreat to comprehensive sales or price regulations, and any decrease in the favourable tax treatment on home owners, could cost dearly in electoral support. Thus, the very success of the postwar effort to make the households home owners, freed from the yoke of landlordism and all entrusted with farreaching freedom of disposal, has come to shackle the housing policy-makers. When home owners occupy the stage, the show really becomes business; in the end, the market corners the state.

SWEDEN; THE 'PEOPLES' HOME' BECOMES TOO EXPENSIVE FOR THE WELFARE STATE

5.1 Building the 'Peoples' Home' in 15 Years; Swedish Social Engineering in Early Postwar Housing

Although physically unharmed, housing in neutral Sweden nevertheless took a heavy blow from the war. Production - mainly for profit and privately financed - plunged from the flourishing late 1930's to a trickle in 1941. As a result of the crisis, public intervention increased. Rent control was imposed in 1942, together with extraordinary public measures to help raising production again.

When peace came to Europe, Swedish Social Democrats already had ambitious plans and policies for the postwar period. Now the time had come to build up the welfare state which back in the 1930's had been named the 'Peoples' Home' (cf. Heclø and Madsen, 1987:157 f.). The Social-Democratic program for housing rested on two fundamental, but possibly conflicting premises. One was **socio-political**. The existing quantitative and qualitative housing shortage could be built away in the next 15 years if speculative private building gave way to a publicly planned production (cf. Gustavsson, 1980:172). The other was **economic**. Projecting a worldwide economic recession after the war, the Swedish Social Democrats viewed an expansive housing construction program as a powerful countercyclical policy. The first principle implied a consistent and increasingly successful public involvement that would gradually make itself unnecessary (SOU, 1945:63, p. 471). The second alluded to more intermittent interventions caused by turns in the business cycle (cf. Cabinet Proposal, 1946:279, pp. 42 ff.).

Through the 1946-47 housing legislation, the Swedish Social Democrats committed the country to a comprehensive housing policy. Its aim was to improve the situation not only for the 'market-weak' groups forming the bulk of their voters, but for all households. A **planned and regulated 'social'** housing production would eliminate the housing shortage inherent in 'speculative' landlordism and provide 'affordable' housing for all. Municipalities were given a planning monopoly; all building in densely populated areas required municipal plans and building permits. Municipal housing provision plans were mandatory.

Because of the rapid urbanization after the war, and the ensuing housing shortage, municipal agencies came to play a crucial role in housing allocation. For

some periods in the 1950's and 1960's, the national government even decided on municipal quota of new production to provide for a more effective allocation of scarce resources (Johansson and Karlberg, 1979:24 ff.). The 1942 Rent Control Act was extended to all new rental production financed with state loans. New single-family homes with such loans were subject to sales price control.

The **financing of new production** was changed to ensure affordability and 'solidaristic' rents. **General** subsidies were provided in the form of a low, guaranteed interest on the first and second mortgages, and a subsidized - or even foregone - interest on the third 'top' mortgage. Furthermore, the state would provide **housing consumption** support to poor families to help them achieve the standard deemed acceptable by the architects of this new 'social' housing policy (SOU, 1945:63, pp. 398 ff.; Cabinet Proposal, 1946:279, pp. 101 ff.).

According to the 'Social' Housing Commission this program would root out the housing shortage by 1960. But who should **produce** the dwellings? Just like their Norwegian brethren, the Swedish Social Democrats alluded to historic lessons in their arguments for an increased public role in financing. As they saw it, the production crisis at the beginning of the war pointed to fundamental flaws in the private, market-oriented production. Therefore, the non-profit cooperative associations and - in particular - Municipal Housing Companies (MHC's) should have a central role in new **production**. These associations and companies were given preferential treatment when it came to obtaining state housing loans (Cabinet Proposal, 1946:279, pp. 75 ff.)

The 1946-47 housing policy thus drastically changed the balance between public and private in the housing sector. The MHC and cooperative share of new production rose from less than 10 percent in the late 1930's (Ekbrant, 1981:20) to nearly 50 percent in 1950. During the 1950's public production proper averaged one-third, and the cooperative one-fourth of all new housing (cf. below, Table 5.2). The share of new housing with publicly supported loans rose to nearly 80 percent by 1950, and averaged 93 percent throughout the following decade (cf. below, Table 5.1).

In retrospect, one is struck by the air of optimistic social engineering in the 1946-47 housing program. The policy "seemed entirely straightforward with regard to goals and the means for achieving them. It specified in detail the quality and price of dwellings, and relied primarily on the nonprofit housing organizations to carry out the policy." Indeed, it seemed a "decisive rejection of market approaches to building homes." (Heclø and Madsen, 1987:211).

5.2 Cracks in the 'Peoples' Home'; The Public-Private Patchwork of the 1950's and 1960's

However, this grandiose **social engineering plan** to build away the housing shortage in 15 years soon collided with harsh economic realities. The economic recession foreseen by the Social Democrats never came. Instead, the postwar economy prospered. Faced with external deficits and the need to modernize Swedish industry,

the Social Democrats allowed industrial investment to increase after 1949, leaving housing investment with just under one-fourth of total investment. This adjustment to the postwar boom, and the countercyclical use of housing construction during the Korean War inflation testified to the economic sensitivity of the housing program.

On the other hand, the steady increase in housing production from about 45 000 units in 1952 to nearly 100 000 in 1965 showed the political determination of the Social Democrats to realize the visions of the 'social' housing pioneers. So did the increasing share of nonprofit public housing production and the overwhelming share of publicly subsidized new dwellings (cf. Tables 5.4 and 5.5). But these social ambitions had a price. Based as they were on the low-interest policies of the immediate postwar period, the state-guaranteed interests on housing loans began to have fiscal as well as distributive effects contrary to policy objectives as inflation rose in the 1950's.

Adhering to the social and political ambitions of the postwar housing program thus placed the (continuously dominant) Social Democrats in a dilemma. To privatize housing costs by raising guaranteed interest rates would ameliorate the fiscal problem. However, it would also have ideologically unwanted distributional effects. With rent control based on historic costs, new dwellings would be much more expensive than the older ones. To keep low interest rates would mean less pronounced effects on distribution. On the other hand, it might prove expensive to the public purse, and in the end perhaps fiscally untenable.

It is interesting to find that the Social Democrats wavered between radical, across-the-board privatization alternatives and painstakingly detailed measures which rendered the public-private mix a patchwork. Despite the social rhetoric of the 1946-47 program, there was no adherence in principle to general production subsidies. According to the optimistic view of the 'social' housing pioneers, they were only a temporary measure. They would be dismantled as soon as the effectivity of the building industry had improved, the rent/income ratio had become more favourable, and the housing shortage was eliminated (SOU, 1945:63, pp. 468 ff.).

Indeed, the 1956 report of the Housing Policy Commission (appointed by a Social-Democratic Minister) contended that real incomes had now increased to such an extent that the purchasing power also of most 'market-weak' households made general production subsidies unnecessary. They should now be scrapped in favour of selective, supplementary housing allowances to households in real need (SOU, 1956:40, p. 54 ff.).

As it turned out, however, this was an idea whose time had yet a dozen years to come. The Social-Democratic Government would not succumb to a policy of curbing demand through privatizing the costs of new dwellings. It still adhered to the immediate postwar view that the housing shortage should be built and not priced away. Thus began a process of successive financial and regulatory changes to patch up the public-private balance of Swedish housing, covering but not really solving the fundamental cracks at the base caused by the inflationary tendencies not really acknowledged as a problem by the Social Democrats (cf. Heclø and Madsen, 1987:213). In the following years, this took three main forms; (a) successive reductions in general production subsidies (b) gradual increases in selective

subsidies to needy households, and (c) some steps towards rent deregulation. Furthermore, taxation of home ownership began to develop into a general subsidy to housing consumption in the owner-occupied sector.

From 1957 onwards, there were successive hikes in the guaranteed interest rates on primary and secondary housing loans, thus adjusting housing policy to the changes in monetary policy begun with the 1955 abandonment of the postwar low-interest policy. Guaranteed interest rates were also differentiated for dwellings produced in different years (cf. Sandahl, 1983:242 f.). These cuts in general production subsidies were accompanied by successively more generous housing allowances to families with children. The 1960 census - the first since 1945 - showed high rates of overcrowding among families with children. The 1963 reform increased the allowances and doubled the eligible target group from 135 000 to 270 000 households (Cabinet Budget Proposal, 1963:1, part 7, pp. 130 ff.).

The successive privatization of housing costs caused by diminishing production subsidies also had repercussions on rent control. The split between rents in older and newer apartments widened. Since "party strategists were acutely aware of the cleavage in its present and future constituency that might follow", the Social Democratic Government in 1959 finally gave up its principal adherence to the 1942 system of rent control. However, decontrol would only occur in areas with an adequate supply of housing; metropolitan areas and large industrial towns would thus continue to have controlled rents. An interesting difference was made between private and public renting sectors. The 1959 changes meant that public sector rents would be determined through negotiations between top-level representatives of the national federations of the MHC's and the Tenants' Associations (cf. Heclø and Madsen, 1987:214 f.). The 'Popular Movement Coalition' - the most powerful institutional force in later decades - was on the move.

Inflation and constituency considerations together created a new form of public housing finance, i.e., a general support of housing consumption in the owner-occupied sector through the right to deduct mortgage interest from taxable income. A unified tax on imputed rent was introduced in the mid-1950's. The rate was set at three percent of the assessed value of the house, whereas the deduction included actual interest payments. With the abandonment of the low-interest policy in 1955 and the successive increases in interest rates, this effort to tax homeowners' unrealized capital gains "inadvertently turned into a scheme of homeowner subsidies", as some observers put it (Heclø and Madsen, 1987:212). However, the inadvertence may be questioned in view of subsequent changes. The government actually lowered the imputed rent and even introduced extra deductions for owner occupiers (cf. SOU, 1984:36, pp. 333 ff.), thus discretely increasing this indirect, and budget-wise invisible, public support to housing consumption.

5.3 Changing Gears and Shifting Tracks; Sweden's Housing from the mid-1960's to the mid-1970's

Inflation put sand into the machinery set up by the social engineers right after the wars to solve the housing problem. But there were many other signs in the early 1960's indicating the insufficiency of present programs to overcome the housing shortage. The wartime baby boom had been one of the factors prompting the postwar policy. Now, the babies of that boom would form households and enter the housing market. The "flight from the countryside" accelerated in the late 1950's. By 1960, 52 percent of all Swedes lived in urban areas. Only a decade later, however, that share had surged to 81 percent! Furthermore, the first half of the 1960's witnessed an unprecedented economic growth. These economic "record years" would compound the already growing demographic demands on Sweden's housing.

The postwar achievements in terms of new **production** were thus not sufficient to meet the new situation. In spring 1965, the Parliament recommended that 1 000 000 dwellings should be produced in the next decade. This recommendation, well in line with the recommendations of the 1963 Housing Commission to build 1.5 million dwellings up to 1980, was confirmed the following year (Cabinet Budget Proposal, 1966:1, Part 13, p.192).

The remarkable thing is that this **Million Program** was actually implemented; just over one million dwellings were produced from 1965 to 1974. The Municipal Housing Companies built nearly 40 percent of these dwellings. The Social Democrats dominated the scene, often using public rental production in a paternalistic manner to secure old and create new constituencies (cf. Strömberg, 1989:21 ff.). The MHC's thus became more important than the other classis housing affiliate of the Social Democrats, i.e., the national cooperative housing associations. They had held a key position as vehicles of 'social' housing in the 1950's and early 1960's (cf. Table 5.1).

As could be expected, this strenuous effort to shift gears in housing production was not exactly beneficial in fiscal terms. Set in motion in a period of continuing inflation with rising interest rates and surging production costs, the **Million Program** increased still existing general production subsidies to nearly half a billion SEK in 1967/68 (Cabinet Proposal, 1967:100, p 78). In its 1967 Housing Policy Bill, the Social-Democratic Government held that the time had come to shift tracks. It argued for a

withdrawal of these general subsidies, in combination with increased selective subsidies to households who for economic reasons have difficulties in finding affordable, good quality housing (Cabinet Proposal, 1967:100, p 228).

The non-subsidized 'parity' loan system introduced in 1968 meant an end to general production subsidies. To provide affordable new housing, there would still be state housing loans available. However, they would not carry any subsidies with them. Instead, there would be an intricate system of individual redistribution over time of the costs for each housing unit. In essence, it meant that costs would be low at the beginning, but high at the end of the building's lifetime. The later years would thus

'subsidize' the early and most costly period (Cabinet Proposal, 1967:100, p. 189 f., 229 f.). At the same time, a widened and more elaborate system of housing allowances was introduced to help families with children (Cabinet Proposal, 1968:42, p. 61 f.).

The Social Democrats evidently hoped that this system would keep down the costs of housing enough to enable 'market-weak' groups to afford new housing, at the same time as it would not strain the public purse. To hold production costs further down, municipalities were urged to implement an 'active' policy of land acquisition. A state loan fund with special interest rates was set up to help financing municipal land purchase (Cabinet Proposal, 1967:100, pp. 194 ff.).

The 1967/68 housing reforms also meant rent **deregulation**. The 1942 system of rent control was finally taken off the books, after a gradual decrease in the number of regulated areas since the late 1950's (Johansson and Karlberg, 1979:31 f.). Instead came the still existing process of rent-setting through negotiation between officials in the renter as well as public and private landlord organizations. These negotiations are based on the 'equal utility value, equal rent' principle (cf. Lundqvist, 1988b:68 f.). The corporate order in Sweden's rental sector was thus moving further towards a position at the center of the housing sector.

5.4 Swedish Housing 1974-1982; Social Democrats Reintroduce General Subsidies, Bourgeois Coalition Regulates for Privatization

However, the 1968 parity loan system of 'privatized', individual redistribution of housing costs over the building's lifetime never came to function as intended. The politicians in Parliament did not dare to adjust the coefficients so that full parity could be achieved. The 1974 Housing Policy Bill indicated that the Social Democrats were once again - as in 1946 - giving priority to ideology and politics over fiscal concerns. When the 'social' housing policy objectives "can no longer be achieved because of the too rapid increase in housing costs", **general** subsidies "are motivated", argued the Minister of Housing, and added that "today, this means, i.e., that the principle of a subsidy-free system of housing finance can not be upheld." (Cabinet Proposal, 1974:150, p. 398).

The 1975 system of housing finance came under siege in the late 1980's, but still remained in force in 1990. It meant that the state provided interest subsidies on loans to **all** types of dwellings. To reach the 'affordability' objective, subsidies were large during the first years, when the new dwelling had high capital costs. What some have called the "Social Democratic commitment to fairness and equity" (Heclo and Madsen 1987:232) was revealed by two other features. The 'solidaristic rent' objective - meaning equal rents for dwellings of equal utility value to the consumer regardless of historic production costs of the dwelling - was to be reached by **de-escalating** the interest subsidy annually. The 'tenure neutrality' goal should be achieved by differentiating the interest subsidy. It was made lower for owner-occupied housing to compensate other tenures for the home owners' right to deduct mortgage interest from taxable income (Cabinet Proposal, 1974:150, p. 404 ff.).

The 1974/75 housing reforms also strengthened the public regulation of housing production by adding two mandatory clauses to the Housing Finance Ordinance. The **municipal land** clause stipulated that to qualify for subsidized state housing loans, producers of new multi-family housing or new single-family housing on large estates must have obtained the land, or hold it under leasehold, from the municipality. The **open tender** clause refers to the same types of housing. It stipulated that subsidized state housing loans can be obtained only if the project is preceded by an open tender (National Housing Board, 1979:40).

The 1974/75 reform of housing finance laid down a **fiscal objective**. The system should be transparent enough to always reveal the size of the general state subsidy. But despite its fiscal implications, there was no discussion of possible future limits to the subsidy program. For there were indeed grave implications. If (a) the production volume is large; (b) the production costs increase rapidly, and (c) the general interest rate is pushed way above the level at which the state subsidy begins, then the subsidy system could put severe strains on the state budget.

All these conditions were at hand in the late 1970's. The Bourgeois Coalition government taking power after the 1976 elections was committed in principle to a subsidy-free system of financing new production. However, faced as it was with the tremendously strong, Social Democracy-affiliated corporatist implementation structure developing particularly after the **Million Program** (cf. Lundqvist, 1988c), it made only token indentations in the system in the 1976-1982 period. Between 1975 and 1982 - the last year of the Bourgeois Coalition - the general interest subsidies quadrupled from 1.8 to 7.2 billion SEK, despite a drop in annual new production from 75 000 to 45 000 dwellings (SOS, 1985:62, 160).

The Bourgeois Coalition thus allowed public financing of new production to increase. As for housing consumption, the right to tax deductions for home owners was kept in place, and allowed to follow the owner's marginal tax rate. Pressed by the economic crisis of the late 1970's, the Coalition promised a tax reform. Over the resistance and final walkout of the Conservatives, the Liberals and the Center Party in 1981 succumbed to the Social Democrats' demand for maximizing tax deductions to 50 percent of the interest paid (cf. Hadenius, 1981:242 ff.). However, this reform took full effect only in 1985, three years after the Social-Democratic return to power.

By demanding a limit to the tax benefits enjoyed by home owners, the Social Democrats showed that their criterion for tenure justice in housing was the welfare of households in public rental housing. Several initiatives by the Bourgeois parties revealed that they used the virtues of home ownership as the benchmark for housing reform. Conservative efforts to privatize the rental stock through legalizing condominium conversions (SOU, 1982:40) stranded because of the Bourgeois election defeat in 1982 (Lundqvist, 1988b:112 f.). The Liberals' pet idea was to allow public (and private) rental housing to be converted into cooperatives. Such legislation was passed in spring 1982. Thus, it did not have any noticeable effect before the Social Democrats' return to power after the September 1982 elections (Lundqvist, 1988b:115 f.; cf. Ljung, 1981:57 f., 68 ff.).

5.5 The Public-Private Mix in Swedish Housing by 1980; Comprehensive Public Financing Determined the Boundaries

When the Bourgeois Coalition lost power in 1982, the public sector influenced Swedish housing through (a) regulations spanning from planning and acquisition of land to the location and quality of the final product; (b) financing by means of general subsidies to new production as well as direct and indirect support to housing consumption, and (c) the production and ownership of rental housing by special Municipal Housing Companies and (to a limited extent) the state and municipalities themselves. Following the 1967 and 1974 housing reforms, the municipal share of land used for housing purposes comprised 90 percent annually. The share of new production regulated by the open tender clause varied between 66 and 82 percent (National Housing Board, 1981).

Table 5.1 Completed Dwellings in Sweden, 1949-1982, by Financing Categories

Period	Total Production (1 000's)	State Housing Loans %	Private Financing %
1949-1950*	85	79	21
1951-1960*	573	93	7
1961-1967*	604	91	9
1968-1975*	793	86 ***	14
1976-1982**	368	92	8
Total	2 423	90	10

Sources: SOS 1962:48; SOS 1969:27; SOS 1975:27; SOS 1979:35; SOS 1985a:53.

* Social Democrats.

** Bourgeois Coalition.

*** State Housing Loans during this period were not subsidized.

Table 5.2 Completed Dwellings in Sweden, 1949-1982, by Investor Categories

Period	Total Production (1 000's)	Investor Category, in %				
		Private Landlords	Owner Occupiers	Coops	MHC's*	State etc.
1949-1950*	85	25	26	16	29	4
1951-1960*	573	20	23	25	27	5
1961-1967*	604	15	24	23	33	5
1968-1975*	793	11	35	13	37	4
1976-1982**	368	4	61	12	21	2
Total	2 423	14	37	14	31	4

Sources: SOS 1962:44; SOS 1969b:26; SOS 1975:26; SOS 1979:34; SOS 1985b:22).

* Social Democrats.

** Bourgeois Coalition.

The public role in **finance** was, by any standards, quite **comprehensive**. State Housing Loans (SHL's) were available throughout the period. They were, however, not subsidized between 1968 and 1975. The 90 percent of 1949-1982 completions financed with SHL's represented two-thirds of the 1980 stock of 3.6 million dwellings. Moreover, the SHL's were intricately interwoven with the municipal and land tenure **regulations**, and with regulations to achieve tenure neutrality. Insofar as the SHL's were geared towards making new housing affordable they also determined much of the need for, and size of supplementary housing consumption benefits. Furthermore, the SHL system of de-escalating interest subsidies also set the stage for the rent negotiations in the public and private rental sectors (cf. Dickens, et al. 1985:112 ff.)

As Table 5.2 reveals, just about one-third of the postwar **production** was in **public renting**. During the **Million Program** decade ending in the mid-1970's, two out of five new dwellings were built by Municipal Housing Companies. The strongly increased share of new owner-occupied dwellings following the ending of the **Million Program** in the mid-1970's is particularly notable.

Public involvement in the **finance of housing consumption** was both direct and indirect. Direct state support in the form of housing allowances to families with

Figure 5.1 The Public-Private Mix in Swedish Housing in 1982: The Extent of Public Responsibility for Main Activities

Activity	Object	Extent of Public Responsibility
Regulation	Housing Production	Municipal control of location through provision of 90% of land used for larger developments and of quality through building permits to all new housing
		Municipal control of price through open tender regulations for all large-scale housing developments
		National government control of quality and price through control via loan applications covering 90% of new housing
Financing	Housing Production	Interest subsidies to 90% of all new housing
	Housing Consumption	Tax deductions on mortgage interest for the majority of home owners
		Housing allowances to 27% of all households
Production		State and municipalities acted as investors in 21% of new production and owned 35% of post-war stock (23% of total stock)

children covered 374 000 families in 1982 (Cabinet Budget Proposal, 1984/85:100, part 13:63). Municipal housing allowances were given to 645 000 pensioner households in 1983 (SOU, 1984:36, p. 198 f.). These allowances together covered about 27 percent of all Swedish households. Tax subsidies to the owner-occupied sector amounted to 11.5 billion SEK in 1982, and covered the majority of all home owners. Taken together, public subsidies amounted to 26.7 billion SEK, which - incidentally - corresponded to the gross fixed capital formation in residential buildings that year (Cabinet Budget Proposal, 1984/85:100, Part 13, p. 9; Nordiska Ministerrådet 1987:284).

The overall public-private mix in Swedish housing is outlined in Figure 5.1. As just noted, the **comprehensive** public involvement in production finance set the stage for the rest of the public-private mix. The favourable loan terms and the regulations attached to them affected almost all new housing. The public part of new production was handled by the Municipal Housing Companies who by 1980 outnumbered private landlords in terms of dwellings.

Public involvement in housing consumption was heavy and increasing in the owner-occupied sector, but declining in terms of households coverage in the rental sector (SOS, 1985a:160). The most glaring difference from, e.g., the Dutch situation concerns housing allocation. In 1977, 158 of Sweden's municipalities reported that they had public Housing Allocation Agencies, while 47 said allocations were handled by local MHC's. The rest, or 73 municipalities, had no public allocation whatsoever (Wiktorin, 1983:17). It should be noted, however, that there were few if any regulatory measures empowering public allocation of dwellings in the private rental stock.

5.6 The Institutional Framework of Swedish Housing by 1980; A Strong Housing Administration in a Corporatist Policy Network

The shifting back and forth between different systems of housing finance in the

Table 5.3 Swedish Households According to Tenure, 1945-1980

Year	Type of Tenure			
	Owner Occupation	Cooperative	Private Renting	Public Renting
1945	39	4	52	5
1960	36	9	38	14
1965	36	12	34	18
1970	35	13	30	22
1975	39	13	28	20
1980*	41	14	20	23

Sources: SOS 1985a:231, NBD Bofakta 1983:5.

* Two percent "no answer".

Table 5.4 The Swedish Housing Stock According to Ownership, 1945-1980

Year	Owner Category				
	Private Persons and Firms	Owner Occupiers	Coop's	Municipal Housing Companies	State and Municipalities
1945		89	4	2	5
1960	41		36	11	8
1965	33		36	14	12
1970		64		14	17
1975		62		14	20
1980*	19		41	16	19

Sources: SOS 1966:40, 44; SOS 1969a:23, 34; SOS 1972:10; SOS 1977:9; SOS 1985a:17.

* Two percent "not available".

1970's should not be allowed to obscure the continuous process of institutionalization in the housing sector as a consequence of the postwar 'social' housing policy. The central-local administrative cooperation around the State Housing Loans held finance, production planning, and quality regulation closely knit together. Over time, several organized interests came to hold important positions in the implementation of public programs for housing. Of course, this had strong implications for the possibilities of privatization.

First, what could be privatized in the Swedish housing sector? As Tables 5.3 and 5.4 indicate, less than one-fourth of the households and the housing stock were in the public housing sector. Since the MHC's who own most of the public rental stock are organized as either foundations (70 percent) or joint-stock companies, they are in legal terms private bodies. They work on a non-profit basis. The municipality provides the entire capital stock of the MHC. Furthermore, the entire board of directors is appointed by the Municipal Council on the basis of party representation in that Council (cf. Lundqvist, 1988b:70). For all practical purposes, then, the MHC stock can be regarded as public in the same sense as that of the Dutch Housing Associations. The potential of privatization through **dispossession** of the MHC stock was thus over 800 000 dwellings at the beginning of the 1980's.

However, the postwar 'social' housing policy had created many vested interests, which could put obstacles in the way of any systematic effort to change the boundary between public and private. As the architects of this 'social' policy, the Social Democrats had built up and were supported by what has been dubbed the 'Popular Movements' Coalition' in housing (cf. Gustavsson, 1980:180).

During the decades after 1945, the organized interests in public rental and cooperative housing came to hold an important position of power in the housing sector. The Municipal Housing Companies not only built and managed public rental housing; in many municipalities, they were given preferential treatment in terms of land. They also came to perform the function of municipal housing allocation (cf. Strömberg, 1989). Their national federation - **SABO** - strongly influenced policy-

making, not the least through the many Social Democratic representatives in Parliament who had come up through the MHC ranks. Other Social Democratic-affiliated organizations in this movement at that time were the nation-wide cooperative associations **HSB** and **Riksbyggen**.

Of course, the latter two also represented the consumption side by organizing all the cooperative tenant-owners, i.e., the members living in cooperative dwellings. More important here, however, was the National Federation of Tenants' Associations (**HGR**). Through 'cooptation', the **HGR** organized all households in public rental dwellings, but was less representative of renters in the private sector. Following the rent deregulation of the 1960's and early 1970's, the Social Democrats actually allowed rent-setting to develop into a process of self-regulation by the parties involved. This 'corporatist implementation' structure was most pronounced in the public rental sector, and characterized by top-level rent negotiations between **SABO** and **HGR**. Since the 1968 Rent Act stipulated that rents in the public sector should be decisive also for the private sector, these organizations came to hold a very central position on the rental market as a whole (cf. Lundqvist, 1988b:passim).

As is typical for so many areas of Swedish life, the interests on the other side of the left-right divide were also highly mobilized. The Business Building Delegation (**NBD**) functioned as the lobbyist arm of the national associations of employers, private building firms, banks, insurance companies, property owners, chambers of commerce and others (Gustavsson, 1980:180). For years, the **NBD** actively lobbied for deregulation of the building sector.

What is most interesting about this policy network is that while the public involvement in finance and regulation was congenial with the stands of the Popular Movement Coalition, it was more problematic for the Business Building Delegation. The subsidized 'social' housing policy with its regulatory measures had curtailed many of the speculative possibilities of a totally free system of housing finance. On the other hand, favourable State Housing Loans helped keeping up construction demand. Thus, although opposed to the Popular Movements' Coalition on many accounts, the **NBD** had no difficulties in joining that Coalition in the demand for more money to the building sector (cf. Lundqvist, et al. 1990:452).

To come to grips with the standpoints of the Business Building Delegation, one has to look at the hub of Swedish postwar housing, i.e., the system of State Housing Loans. At its base, one finds the Housing Construction, later Housing Provision Plans worked out by the municipalities. These documents projected the new construction necessary to provide adequate housing to the inhabitants. They also laid out how the municipalities intended to secure land for building purposes (cf. Johansson and Karlberg, 1979:71 ff.).

On the basis of these plans, the National Housing Board and its regional units made estimates for the future housing demand. The Ministry of Housing then determined how much should be set aside in the budget for State Housing Loans. Since these are subsidized, most housing construction was carried out in such a way as to qualify for such advantageous loans. The loan applications were made to municipal agencies, and then handled by the Regional Housing Boards. Before reaching a decision, the Regional Board checked (a) the costs which before 1980

should be within those determined by the National Housing Board for different 'stereotype' categories of housing; (b) that the project was carried out in accordance with the land and open tender conditions described earlier, and (c) that the prescriptions of the National Building Norms were followed (Johansson and Karlberg, 1979:81 ff.).

Clearly, this legal and administrative framework represented a concerted effort to hold the 'social' housing policy, particularly the pivotal SHL system, together. It was also conducive to fostering attitudes among both administrators and the 'Popular Movements' Coalition in support of the existing public-private mix. Furthermore, it made it difficult for building companies and others to build speculatively for large and quick gains. At the same time, however, adjusting to the conditions of the State Housing Loans guaranteed a steady and foreseeable market for these companies. They clearly chose to 'go along to get along', and this "made the bulk of Swedish housing since the war 'non-speculative'" (Dickens et al., 1985:85). After 1980, companies had further reason not to go against the State Housing Loans. Then the 'type' categorization and its production cost ceilings were substituted for by a so-called 'real production-cost' system (Lundqvist, 1981:71 f.). The Business Building Delegation would now find it more difficult to complain; there would be more possibilities of profit because of less strenuous cost controls.

However, this more generous State Housing Loan coverage - initiated by a Liberal Housing Minister! - might also force a rethinking of the public-private mix. With less checks on the notoriously rapid increases in production costs, the fiscal strains from the adherence to general production subsidies might make the 'affordability' principle untenable. But what could a continuing Bourgeois government or - for that matter - an incoming Social-Democratic cabinet actually do?

As already indicated, the Bourgeois parties had opted for dispossession of public dwellings as their strategy. But their 1981/82 legislation to promote tenant-initiated conversions was cumbersome, and did not spur much activity. As for **financing**, the Bourgeois bloc adamantly supported continued tax support to housing consumption in the owner-occupied sector. As it would turn out, the seeming Bourgeois acceptance of public production subsidies while holding power was exchanged for proposals of total def financing of production when they were driven into opposition after the 1982 elections. As shown below, across-the-board deregulations were also called for.

This was clearly in line with both Bourgeois ideology and traditional Bourgeois wooing of the 'market-strong' constituencies of actual or prospective home owners. Aspiring to cover a much wider constituency, the Social Democrats' options may have been more restricted. Def financing production would let in 'speculative capital' and sacrifice the 'affordability' principle of the 'social' housing policy, which had won them large 'market-weak' constituencies in multi-family housing since the war. It would go against the Popular Movements' Coalition, and thus jeopardize a Social-Democratic power base, second only to the trade unions in importance.

However, def financing consumption by taxing the homeowners would also be politically risky. Although organizing only a few tens of thousands of Sweden's 1.5

million owner occupiers, the Swedish National Association of Homeowners was orchestrating widely recognized campaigns before the 1979 and 1982 elections, where it painted in very dark colours all the evils befalling the homeowners from new tax assessment values and new tax reforms. All political parties found it necessary to issue 'letters of privilege' to the homeowners, reassuring them of their status (cf. Nuder, 1982:28 ff., Esaiasson, 1990:270 ff.). Since the Social Democrats are dependent on a sizable share of homeowner votes to carry elections, they have to "remain keenly alert to the partisan inclinations in this particular group" (Heclo and Madsen, 1987:224).

An incoming Social Democratic government faced with fiscal problems emanating from the housing sector would thus have to strike a balance between public and private which would save the 'affordability' principle and keep up new production. This would please both 'market-new' and 'market-weak' households (the party's disastrous housing performance in the 1966 elections was still a painful memory), as well as both sides among the organized interests. The balance must also rest on the principles of 'rent solidarity' and 'tenure neutrality', thus avoiding to make different household groups 'winners' or 'losers' in the process. The question really was whether such an alternative could be found and - given the necessity to gain support from the adamantly 'market-weak' Communists - whether it could be carried through Parliament.

5.7 From the Crossroads to Way's End; The Fate of Sweden's 'Social' Housing in the 1980's

The Social-Democratic government taking power after the 1982 elections seemed determined to do something about the general subsidies to new production, which had quadrupled during the Bourgeois era. In his directives to the 1982 Housing Policy Commission, the new Social Democratic Minister of Housing argued that a continued real term increase in these subsidies is neither fiscally acceptable nor desirable from the viewpoint of housing policy....there is reason to concentrate more and more of state support to household groups with low housing standards...[and] low incomes (Directives, 1982:94, *passim*).

Using the 'fiscal crisis' as an argument, the Social Democrats thus seemed intent on reforming housing production finance. But 'social' housing objectives ruled out public **definancing**; rapidly rising production costs still necessitated subsidies to make new housing affordable for **all**. In opposition, the Social Democrats had made proposals for an increased **intra-sectoral** redistribution. Although this measure could only "be used by the state to defend and develop the 'social' housing policy, e.g., secure the necessary new production of dwellings", the Social Democrats in 1981 also alluded to **fiscal** necessities; the "money taken from existing housing could be used to dampen the increase in the general interest subsidies" (Motion, 1981/82:2364, p. 3 f).

Back in power the Social Democrats continued to push for "redistribution **within**

the housing sector" (Cabinet Proposal, 1983/84:40, p. 77) and proposed a **housing tax** levied on dwellings in the existing stock (Cabinet Proposal, 1984/85:85, *passim*). Rapid inflation and high interest rates had driven building costs to such heights that a new, 100 square meter flat - if unsubsidized - demanded a rent equal to the wage of an industrial worker **before** taxes. No wonder Municipal Housing Companies had an unrented stock of 30 000 dwellings in 1983 (cf. Cabinet Budget Proposal, 1986/87:100, Part 13:8). To the Social Democrats, it was "thus nonsense when other political parties say they will take away the general housing subsidies." The new tax would provide both fiscal stability and a 'decent' policy of redistribution; "the tax redistributes resources from older to new housing", said the Minister of Housing (Parliamentary Record, 1984/85:48, p. 54 f.).

The tax proposal seemed dictated by the Social Democrat's historic adherence to the 'social' housing objective of affordability laid down already in their 1946-47 policy. By including all housing, they probably also hoped not to offend their traditional allies in multi-family housing, or alienate home owners; the latter more and more important as a potential Social-Democratic constituency (cf. Applebaum, 1985:237 f.).

This new policy of intra-sectoral redistribution to help financing new production also meant ideological and political combat. Now in opposition, the Bourgeois parties seemed eager to capitalize on the homeowner discontent with the reduced deductions following the 1981/82 tax agreement. The Conservatives wanted "more room for market forces and unregulated prices". If the state stopped giving **general** subsidies, taxes could be lowered, and households would be able to pay the real costs of housing (Motion, 1983/84:923, p. 17 f.). Also the Liberals emphasized the "necessity of getting away from the present heavily subsidized and regulated housing market" (Motion, 1983/84:2113, p. 1). The Center Party was quite explicit: "he who builds a house must pay the real costs" (Motion, 1983/84:2072, p. 16). This also meant that no one else should be forced to pay through some sort of intra-sectoral redistribution. Only the individual household itself should decide how heavy a burden of housing it would like to carry (Motion, 1983/84:2072, p. 16 [Center]; cf. Motion, 1983/84:2113, p. 7 [Liberal]).

The different ideological views thus clearly show up in the respective actors' view of housing finance. But there is also a strong **constituency** aspect in the debate. Using such terms as **fairness** and **equity**, the Bourgeois parties pointed to the fact that some home owner categories would be severely hit by the new tax: "those who already have the highest housing costs - and here we refer particularly to home owners who have financed their houses without [subsidized] state loans and owner occupiers who have recently bought an older house from the stock - will be hit hardest by the new tax." (Parliamentary Record, 1984/85:48, p. 4 [Conservative]; p. 8 [Center]; p. 48 [Liberal]).

The Social Democrats argued that the new housing tax meant a fairer and more equitable redistribution in housing than the one practiced by the Bourgeois Coalition in 1976-1982. Its incremental strategy of small indentations into the 1975 system of general subsidies was said to have particularly hit public rental housing and housing cooperatives. Constituency considerations were revealed in the

Minister's remark that "all households will be engaged in th[is] state-governed redistribution". The new housing tax did not mean a "transfer of resources from home owners to renters, since it is levied with the same sum on these categories." (Parliamentary Record, 1984/85:48, p. 54 f.). That this 'same sum' could be more heavily felt by some home owners paying large housing costs did not seem to be of central concern to the Social Democrats (cf. Parliamentary Record, 1984/85:48, p. 24).

During their first term after returning to power, the Social Democrats thus seemed determined not to jeopardize the 'affordability' of new housing through a **definancing** of new production. This also held for housing renewal. The continuously decreasing new production (1983 figures were only two-fifth of those ten years earlier, and falling, cf. Table 5.5), and the high unemployment figures among construction workers, led the Social Democratic Government in 1983 to suggest a **Housing Renewal Program** that would comprise 425 000 rental and cooperative dwellings in 10 years. The state was to subsidize interest on renewal loans, and provide interest- and amortization-free loans for renewals too costly to be paid via rent increases. The latter would particularly concern run-down public rental estates (Cabinet Proposal, 1983/84:40, Part 9, *passim*).

As Table 5.5 shows, the public sector continued to be an important **investor and producer** of new housing throughout the 1980's, in contrast to most other countries in Western Europe. One should note the trebling of the private rental share occurring between 1983 and 1988, while new owner-occupied housing's share was cut by one-third up to 1989. Interest-subsidized loans were given to 99 percent of all new housing from 1983 to 1988 (SOS, 1989:28). The total amount of such subsidies doubled between 1982 and 1989. As for subsidies to housing consumption, total tax relief to home owners rose by 70 percent during the same period, while housing allowances to families with children increased very little (Cabinet Budget Proposal, 1988/89:100, Part 13:18; running prices).

Table 5.5 Completed Dwellings in Sweden, 1983-1989, by Investor Categories

Period	Total Production (1 000's)	Investor Category, in %				
		Private Landlords	Owner Occupiers	Coops	MHC's*	State etc.
1983	43	5	39	29	25	2
1984	35	8	37	28	25	2
1985	33	10	33	29	26	2
1986	29	13	30	28	27	2
1987	31	12	27	32	27	2
1988	40	15	24	32	27	2
1989	50	17	22	35	24	2
Total	261	11	31	30	26	2

Source: BoU 1988/89:7, p. 15; BoU 1989/90:13, p. 13).

* Municipal Housing Companies

However, the fiscal strains posed by the adherence to the objectives of the 1975 policy seem to have caused an escalating process of Social-Democratic rethinking of the public role in housing finance. This began with the Social Democrats' taking over the Bourgeois technique of annual indentions into the subsidies to (older) SHL loans. Next step was to lift the loans out of the state budget. There should no longer be any duty for insurance companies and public pension funds to allocate large sums of capital for State Housing Loans. Beginning in 1985, a special **State Housing Finance Company** was given the mandate of obtaining enough credit in the open market to sustain a steady housing production (Cabinet Budget Proposal, 1985/86:100, Part 13:16 f.).

The 1981 tax deal between parts of the Bourgeois Coalition and the Social Democrats signalled that the latter were taking a hard look at taxation. Following a spate of investigatory commission reports during the latter 1980's, the first part of what has been dubbed "the tax reform of the century" was forged by a Social Democratic-Liberal deal at the end of 1989. The second, more comprehensive part of the reform was passed by Parliament in June 1990, taking full effect in 1991. There was to be a dramatic cut in income taxes; no one would pay a higher state tax than 20 percent. Given the average (proportional) municipal income tax of 31 percent, there would be no higher marginal tax rates than 51 percent, to be compared with the earlier possible maximum of 75 to 80 percent (Cabinet Proposal, 1989/90:110, pp. 298 ff.).

To compensate the public purse for loss of income, public support to housing would be drastically reduced. Interest subsidies to rental and cooperative housing were to be cut by nearly two billion SEK. At the same time, however, supplementary housing allowances would be increased by 1.5 billion SEK (Cabinet Proposal, 1989/90:144, p. 10). The state housing tax on owner occupation is to be levied at a rate three times higher than today (Cabinet Proposal, 1989/90:110, p. 505 f.). This heavier tax would be linked to assessment values which might increase by 50 to 100 percent as a result of the 1989/90 National Housing Assessment (Cabinet Proposal, 1989/90:50, pp. 67 ff.). Finally, deductions of mortgage interest would be limited to 30 percent of interests paid, compared to the present 50 percent. The earlier possibilities of a moratorium on capital gains taxation were taken away; all future sales will be taxed with 9 to 18 percent (Cabinet Proposal, 1989/90:110, pp. 406 ff.; 589).

The new tax system also meant lifting away some of the special favours earlier given to housing production and consumption. Building materials would no longer enjoy a much lower VAT than other goods, although there would be an investment grant to compensate. Some goods and services of importance to housing consumption - such as energy, water, and garbage collection - are longer exempt from VAT (Cabinet Proposal, 1989/90:144, pp. 85 f.; 90 ff.). Finally, a totally new system of financing new production was proposed, including a 'basic subsidy' covering 30 percent of capital costs of new housing, and a **non-subsidized parity** loan to redistribute capital costs over (at least) the first 25 years of the building's lifetime (SOU, 1989:71, passim).

In difference from their arguments in the state housing tax debate of the mid-

1980's, the Social Democrats mostly used fiscal arguments for their 1990/1991 tax reform. The reactions were no less dramatic than the proposals. Predictably, the National Association of Homeowners condemned the cuts in indirect support to housing consumption. More severe were the complaints from the Social Democrats' core constituency, the 'Popular Movements Coalition'. Arguing that the heavy increases in housing costs for the more 'market-weak' consumers following from subsidy cuts can not be compensated for by more generous housing allowances, they saw the housing cuts following the tax reform as a distinctive break with 'social' housing policy.

However, at the same time as the Social Democrats seemingly alienated themselves from the traditional postwar policy on housing finance, they continued to defend the public rental stock. Over the protests for the Bourgeois parties, they provided grants and subsidies to Municipal Housing Companies with large shares of empty dwellings, and to improvements on difficult-to-let and/or run-down estates (Cabinet Budget Proposal, 1988/89:100, Part 13:43).

At once after returning to power in 1982, the Social Democrats exempted public rental housing from tenant-initiated conversion to cooperatives (Cabinet Proposal, 1982/83:153, p. 11). Since 1987, sales of public rental housing are made very unfavourable; the heavily subsidized loans to such housing can be transferred to the buyer only with the permission of the Government. Only five such permissions had been granted by the end of 1988 (Cabinet Budget Proposal, 1988/89:100, Part 13:22). Still, Municipal Housing Companies trying to sell seem to have found buyers willing to sacrifice the subsidies. About 15 600 dwellings were sold between 1980 and 1987. This, however, equalled no more than two (2) percent of the total public rental stock. The share of such sales going to cooperative housing societies has increased in later years and comprised one-third of all 1987 sales (SABO, 1989).

No account of the public-private mix in present Swedish housing can neglect developments in the cooperative sector. Historically, this sector was as much a part of the Social Democratic idea of 'social' housing as was ever the public rental sector (Heclo and Madsen, 1987:208 f., 221). But after the ending of the **Million Program**, and with the Bourgeois Coalition promoting tenure choice over collective redistribution, the cooperatives have in fact become more and more similar to the ownership sector. The cooperative society's right to determine the sales price was taken away in 1969. This made it possible for the tenant-owner to sell the dwelling at prevailing market prices. Thanks to the massive output of new housing during the **Million Program**, prices did not increase much. But from the late 1970's cooperative dwelling prices have surged, particularly in the larger cities.

Swedish banks changed their lending practices in the 1980's. They began to accept membership certificates in cooperative societies - the document showing you are a tenant-owner in a cooperative - as a legal title to real estate, i.e., as collateral for long-term loans to finance the purchase of the cooperative dwelling (Lundqvist et al., 1990). This 'privatization from within' occurred without any changes in the Housing Cooperatives Act. It means that not only the 43 percent in home ownership, but also the 16 percent in the cooperative sector should nowadays be seen as 'privatized' dwellings in the sense that they can be traded on the market.

It is also notable that the process has created tensions within the 'Popular Movements Coalition'; national cooperative associations have tacitly sided with Bourgeois conversion proposals (cf. Heclø and Madsen, 1987:225 f.).

5.8 Explaining the Swedish Pattern; The 'Peoples' Home' Becomes Too Expensive for the Welfare State

Returning to power in 1982, the Swedish Social Democrats took over a public-private mix in housing that had not changed profoundly during the six years of Bourgeois rule. Since then, however, the pace and scale of change have been nothing but remarkable. First came the 1982-1985 tax reform - to a large extent engineered by the Social Democrats - which cut tax subsidies to home owners. Then came the lifting out of State Housing Loans from the state budget and over to the State Housing Finance Company, which has to find credits in the open market. Third, there was the 1985 housing tax; although disguised as 'collective redistribution within the sector' to enable affordable new housing, it actually put more of the burden of housing consumption on individual households.

Finally, at the turn of the decade came the 1990-1991 tax reform. It was to a large extent financed by drastic cuts in the indirect consumption subsidies to households with debts on their owner-occupied dwellings. In its wake, there will be a whole new structure of housing finance. Still, during this period of change in financing, the Social Democrats kept defending public production of rental housing; none of the other countries shows the same steady output of such housing.

Indeed, the Social-Democratic arguments concerning the public-private balance in housing finance changed during the later part of the 1980's. In 1985, 'collective redistribution' within the housing sector was used to motivate the state housing tax as a way of securing an 'affordable' new production. In the debate over the 1990-1991 'tax reform of the century', housing subsidies were seen as a major contributor to the drain of fiscal resources. Tax subsidies to home owners, as well as general production subsidies, now seemed a legitimate target for cuts to compensate for decreased tax income. From the postwar position as the expanding welfare state's sacred cow, housing now turned into a milch cow to help filling the Treasury's bucket in the wake of the income tax reform. Public involvement shrank to being an investor and manager of public rental housing, and to direct support to those in need by way of housing allowances. In the end, the public role is changed from giving **general** subsidies to **all** housing to providing **supplementary and selective support** to 'market-weak' households.

Given the Social Democratic adherence to principles of 'affordability', 'tenure neutrality' and 'egalitarian fine-tuning' in the housing sector (cf. Heclø and Madsen, 1987:224 ff.; Lundqvist 1987), how are we to explain what has happened since 1982? Why did the Swedish Social Democrats not pursue a policy of "multi-purpose kindness" (cf. Torgersen, 1987:120 f.) as did their Norwegian colleagues? How come they opted for reducing the public involvement in housing finance by gradually more restrictive subsidies to new production and supplementary housing allowances? Why

was the indirect - but general - public support to housing consumption via taxation gradually watered down in Sweden but not in other countries? And why - amidst this change - was there such a staunch defence of the public role in rental production?

Should the emerging public-private mix be viewed as a result of an economic dilemma for the welfare state, where fiscal constraints have finally made the 'social' housing policy untenable? If this is the case, why did not the Social Democrats promote 'affordability' in new production by selling out some of the public rental stock, comprising more than one-fifth of Sweden's 3.9 million dwellings? In terms of 'constituency', would not this have been strategically wiser than shifting so much of the economic burden of housing to individual and cooperative owners, together representing 60 percent of all households (cf. Lundqvist et al., 1990)?

The answer is, by no means, an easy one. Ideological and structural legacies of the postwar housing policy admittedly play an important part in defending the role of public rental housing. As noted above, the organized interests in public rental and cooperative housing came to hold an important position of power in the housing sector. The postwar housing policy "actually created Sweden's producer lobby" (Adams, 1990:119; cf. Heclø and Madsen, 1987:220 ff.; Headey, 1978:81). As the architects of this 'social' policy the Social Democrats had built up, and were supported by the 'Popular Movements' Coalition'.

The Municipal Housing Companies did not only build and manage public rental housing. In many municipalities they were given preferential treatment in terms of land, and came to perform the function of municipal housing allocation (cf. Strömberg, 1989). Their national federation - **SABO** - strongly influenced policy-making, not the least through the many Social-Democratic representatives in Parliament who had come up through the MHC ranks. As part of the 'Popular Movements' Coalition', this organizational and ideological union of public rental housing interests had been instrumental in formulating and bringing into force the 1975 housing policy.

The Social Democrats had gone a long way in entrusting their affiliates in the public rental sector with wide-ranging powers of self-regulation in rent-setting and collective tenant co-determination arrangements (cf. Lundqvist, 1988c:174 f.). The powerful National Federation of Tenants' Associations and its (most often Social-Democratic) 'ombudsmen' are constantly watching Social-Democratic housing policy. So are the MHC's. Given the strong links to public rental housing organizations and their positions within the ranks of the party, the Social Democrats' resistance to, and blocking of, public housing sales becomes understandable.

However, the long-standing Social-Democratic concern with a policy of 'affordable' housing for **all**, regardless of economic position, should not be understood only in this narrow institutional context. It has also produced a specific electoral profile for the Social Democrats. They have had their main constituencies in the tenures dominated by 'market-weak' households (in the early 1980's, households in rental and cooperative, mostly multi-family, housing on the average earned 10 to 15 percent less than owner occupiers; cf. Lundqvist 1988b:25).

Table 5.6 Party Choice and Form of Housing in Sweden, 1982-1988

Parties	Election Year								
	1982			1985			1988		
	SFU	MF	TOT	SFU	MF	TOT	SFU	MF	TOT
Soc. Dem.	43	55	45.6	41	50	44.7	45	50	43.2
Bourgeois*	52	36	46.9	53	40	47.9	45	35	44.7
Others	5	9	7.5	6	10	7.4	10	14	12.1
Total	100	100	100	100	100	100	100	99	100

Sources: Holmberg 1984:17, 108 f.; Holmberg and Gilljam 1987:19, 199; Holmberg and Gilljam 1990; Gilljam and Holmberg 1990.

Legend: SFU = Single-family Urban; MF = Multi-family; TOT = total party vote.

* Including Christian Democrats

Table 5.6 shows that the historic pattern of Social Democratic dominance in multi-family housing, and Bourgeois hegemony in urban single-family housing held sway up to the 1985 election. The dramatic changes in 1988 are fully explained by the electoral success of the Green Party, which obviously gained votes across the whole housing spectrum. Evidently, the home owners' votes are crucial to success in Swedish elections. This is even more so given their much higher voter turnout (Gilljam and Holmberg, 1990:194). Some argue that the Social Democrats' poor results in the 1979 election was a result of their not being able to calm down worried homeowners, despite the 'letters of privilege' (cf. Heclø and Madsen, 1987:224). And after the 1982 elections, Social Democratic campaign strategists-worried about the prospect of losing out in the new suburbs dominated by new homeowner groups (cf. Lundqvist, 1986a:207 ff.).

Up to the end of the 1980's, the Social Democrats have kept in place the policy of general subsidies to new production. We have seen that it reached almost every dwelling produced during the years after 1982. Given the importance of the homeowners' votes, it can be claimed that this was done not just to suit the principles of 'affordability' and 'tenure neutrality'. It was also designed to woo the increasingly important voters in individual and cooperative home ownership. Most importantly, it was upheld despite evidence that owner-occupied housing was a "wealth-accumulating" machine, thanks to the initially favourable loans and burgeoning market prices (cf., e.g., Olofsson, 1990, *passim*).

However, this public dominance in housing finance has had its price. As Table 5.7 shows, there was a doubling of subsidies to new production, and a 70-percent hike in tax subsidies to home owners in the 1980's. The introduction of the housing tax did not 'solve' this fiscal problem. Incomes from the tax did not prevent the overall state subsidization of the housing sector from going up by 50 percent between 1982 and 1989, making it a rampantly growing item in the state budget. Indeed, the welfare state seemed to have become bogged down in a fiscal dilemma.

Table 5.7 State Involvement in Housing Finance in Sweden, 1982-1989, in Running Prices. Billion SEK

Type of Involvement	1982	1983	1984	1985	1986	1987	1988	1989
Subsidies								
Housing Allowances	6.3	6.8	6.9	7.1	7.2	7.5	8.1	8.4
Interest Subsidies	8.9	9.9	10.5	12.3	14.5	13.3	14.2	17.7
Tax Subsidies to Home owners	10.3	10.9	10.7	13.0	13.2	13.2	16.5	17.9
Gross total	25.5	27.6	28.1	32.4	34.9	34.0	38.8	44.0
Fiscal Income								
State Housing Tax	-	-	0.7	4.5	4.7	5.6	6.0	6.1
Net Total	25.5	26.9	27.1	28.8	30.3	28.4	32.8	37.9

(Source: Cabinet Budget Proposal 1988/89:100, Part 13:18; *Ibid.*, 1989/90, Part 13:18).

But if there were so many and so strong vested interests surrounding the 1975 housing policy, we are still left with our problem: why were housing subsidies to new production and to home owners chosen as the major means for solving the fiscal problem? The first part of the answer can be found in the housing sector itself. The earlier and very generous policy of general subsidies had indeed led to consequences for the distribution of wealth that the Social Democrats could not ignore. In the electorally important metropolitan areas, the owner-occupied sector has gradually become dominated by 'market-strong' households. Families without two large incomes cannot aspire to homeownership in these areas (cf. Olofsson, 1990, *passim*). Once "in", the 'market-strong' households have benefitted from an exceptional growth in market prices during the 1980's, to no small amount dependent on the generous production and consumption subsidies to housing. In effect, then, the state budget was transferring and distributing wealth in ways contradicting the housing policy goals of 'affordability' and 'tenure neutrality'.

A second part of the answer is added by the overall state of the Swedish economy and the role of taxes within it. High income taxes were accused of slowing down economic growth, at least in comparison to other countries. For Sweden with its open economy, this is no situation to be endured for too long. In particular the European economic integration, with its lower tax pressure on income and investments, has been an important driving force behind the new Swedish tax policy.

Third, the political and institutional landscape has changed dramatically since the heydays of the 'Swedish Model' (cf. Elvander, 1987:30 ff.), when the Social Democrats could rule Sweden in tandem with the affiliatory popular movements (cf. Therborn, 1989:201). However, the views and habits died hard. During the period of minority parliamentarism in 1982-1988, the Social Democrats could usually rely on the Leftist-Communists for their welfare state proposals.

But when the Greens took 20 seats in the 1988 elections, the problem of governing under minority parliamentarism became more pronounced. Neither the

Greens nor the Leftist-Communists could be relied upon for tax policy measures of the dignity deemed necessary to 'solve' the fiscal dilemma of the beleaguered Swedish welfare state. The Social Democrats thus had to enter the road to Canossa, seeking reliable and sizable partners for their policies across the Left-Right divide. Hence the deal with the Liberals over tax reform, and hence the fading of the Social-Democratic affiliated interests' position in national policy-making. In effect, decisions have been moved from the chambers of the trade union and party headquarters to the Committee rooms of Parliament. In housing, the 'Popular Movements Coalition' found itself run over both on tax policy and on consequent measures in housing finance.

Earlier, I contended that the Social Democratic-Liberal deal is structured in such a way that the effects of the tax reform and the def financing of housing will even themselves out for a broad spectrum of 'market-strong' homeowners. But even if increased housing allowances are targeted on the 'market-weak' groups, the fact remains; large parts of the 1990/1991 reforms shift the burden of housing from the public sector to the households. In effect, then, the reforms may add up to a restructuring of the public involvement, from **comprehensive and general to supplementary and specific** measures.

What is certain, however, is that during this process of change in housing policy, the traditional alliances and coalitions in the Social-Democratic welfare state have been questioned. Core constituencies have been cut out from key decisions to the effect that 'special interests' (as even former allies were called during the fight over tax reform!) can no longer count on seeing their advice heeded by 'their' government. To paraphrase Orwell; the affiliates of the 'Popular Movements' Coalition', once politically treated as 'more equal than others', go from room to room, but no longer can they tell whether they really are in the 'Peoples' Home' they and the Social Democrats once set out to build.

It seems that the British Government could be quite open to the possibility of the rights to work overseas to "open" the frontiers of the labour market in Sweden within the EEC. The Swedish Government has not yet taken any steps which would indicate a desire to do so. The British Government has not yet taken any steps which would indicate a desire to do so. The British Government has not yet taken any steps which would indicate a desire to do so.

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DISLODGING THE WELFARE STATE? THE NEW PATTERNS OF PUBLIC AND PRIVATE IN EUROPEAN HOUSING

6.1 From Blueprint to House? Assessing the Correspondence between Patterns Found and Patterns Predicted

The preceding chapters have described in some detail the patterns of privatization in the housing sectors of four European nations - Great Britain, The Netherlands, Norway, and Sweden. The descriptions were made against the political and institutional background prevailing in these countries around 1980. It is now time to make a more truly comparative analysis of these patterns. This will be done in steps. First, I will compare the privatization patterns found in the four countries with those predicted in Chapter 1. Second, I will try to explain these patterns, as well as the inconsistencies between empirical and theoretical patterns, in terms of the framework and propositions developed in Chapter 1. In the final part of this chapter, I will discuss the changing character of welfare state intervention in the housing sector.

Given the complexity of the housing sector, the comparison will by necessity contain simplifications and generalizations which could impinge on the validity of the subsequent argument. In order to overcome some of these risks, I will keep as much as possible of the initial comparative description within the confines of my theoretical framework. Thus, the privatization alternatives correspond to the activities outlined in Figure 1.2, and the dichotomy of production/consumption to the ideas outlined in Figure 1.1. What is added for reasons of sectoral peculiarities is the classification of major sub-sectors in housing.

Keeping in mind these reservations, we find that in Great Britain the Tory government in power throughout the 1980's have used all the three major privatization alternatives. Tories have deregulated rents in private renting in order to revive that sub-sector. They have furthermore defunded the production of public rental dwellings by gradually turning off the flow of money from central government, thus forcing local governments to finance more and more of the public rental supply through rental income. This in effect has privatized costs to the renters by pushing up rents. The most wellknown part of the British pattern is that of dispossession. The sale of 1.5 million units from council housing represents one of the most dramatic changes in West European housing during the 1980's.

Figure 6.1 General Patterns of Privatization in the Housing Sectors of Great Britain, The Netherlands, Norway, and Sweden

Privatization Alternative	Housing Sub-sectors							
	Owner Occupation		Renting				Cooperatives	
	Prod.	Cons.	Private		Public		Prod.	Cons.
Deregulation			GB			N		
			N					
Definancing	S	S	S	S	S	S	S	S
					GB			
	N					N		
	NL		NL		NL			
Dispossession					GB			

One striking pattern that comes of Figure 6.1 is the British preoccupation with rental housing. What does **not** come out, however, is the deliberate use of **regulation** to enhance privatization. Regulatory measures have been used to decrease local autonomy so that local authorities would not jeopardize central privatization policies. Such measures have also been used to enhance the competitiveness of private renting. One could go as far as saying that regulation has been used to **force** that housing sub-sector back to life.

In short, then, the British pattern is directed mainly against the rental sector. It uses all three of the main avenues for privatization, even adding a dose of increased public involvement through regulation to make sure ideologically favoured, marketable sub-sectors of housing, as well as 'the able', will prosper.

In contrast, the Swedish pattern is astonishingly one-sided in its use of measures, at the same time as it comprehensive in its coverage of sub-sectors. The reform of housing finance debated in the late 1980's and early 1990's means that subsidies to housing production will be dramatically decreased for all sub-sectors. This in turns implies privatizing the costs of housing consumption in all tenures. Changes in taxation will further cut subsidies to housing consumption for households with mortgages in the owner-occupied and cooperative sectors. Sweden is thus the only one of the countries studied to have directed definancing strategies against these sub-sectors. Most notable is also the absence of any measures to diminish the public rental sector through dispossession. In fact, the Social Democrats have used regulation to increase the protection of that sector against dispossession efforts.

Both the Dutch and Norwegian patterns fall somewhat in between these two extremes. Signalling definancing measures against all new production, the Housing Memorandums refrained from measures which would definance housing consumption in the owner-occupied sector. Norway has even deregulated the cooperative sector to make it more market-like in terms of successive sales, thereby increasing the indirect public financing of that sector. In the Netherlands, deregulation has

been used to allow market rents in the private rental sector. What is problematic with the Dutch case is how to interpret the signals of regulation/deregulation in the production and allocation stages of the housing process. We have interpreted it here as containing not only efforts to decentralize, but also endeavours to increase the possibilities of central control over the implementation of privatization measures.

Now, how do these empirical patterns correspond to the ones we predicted on theoretical grounds? Again, Great Britain provides an extreme case. The Conservatives came into power in 1979 on an explicitly 'market-strong' program. Their housing policy was to provide opportunities for 'the able to prosper' and to concentrate direct public support to 'those in real need'. They took over in a setting more characterized by the dualism between owner occupation and (public) rental housing, and a corresponding cleavage between 'market-strong' and 'market-weak' political constituencies, than in any of the other countries studied here. The polls had repeatedly shown that there was a political power resource to be tapped; around three-quarters of those polled said they wanted to become home owners, compared to the actual figure of 55 percent. The British housing sector was furthermore characterized by a pluralist policy network, with relatively low or one-sided mobilization of organized interests.

We predicted that in such a context, a 'market-strong' party would embark upon a privatization pattern characterized by **definancing** and **dispossession** of the public housing sector, but continued indirect support to the favoured 'marketable' housing sector(s). Such a party will also use **regulation** to break institutional pockets of resistance and guarantee a functioning market. As Chapter 2 has shown, this rather accurately reflects the Thatcher government's privatization policy during the 1980's.

None of the other countries provides such a seemingly perfect match between actual and predicted patterns of privatization. In Sweden, the ideology-wise predominantly 'market-strong' Bourgeois coalition enjoying power by a slim majority in the late 1970's and early 1980's was facing an institutional setting in housing which by international comparisons showed extremely high degrees of interest mobilization and bureaucratic autonomy. This setting was to a large extent the creation and legacy of the postwar comprehensive housing policy. The power resources for the 'market-strong' parties lay particularly in the owner-occupied sector, with the relatively large cooperative sector providing a target for expansion of the Bourgeois power base.

We predicted that in such a situation, 'market-strong' parties would opt for **dispossession** as an alternative to gain more power resources, to increase the constituency enjoying indirect public support to housing consumption. Another proposition was that a slim 'market-strong' majority would certainly not use **definancing** in such a way as to alienate potential constituencies. Most of all, however, we expected such a majority to lean heavily on its legislative position to **regulate** and **deregulate** to break the institutional setting and promote market solutions.

Very little of the latter pattern can be detected in the Swedish Bourgeois coalition's housing policy. The Liberal Minister of Housing tried to break the Tenants' Associations' monopoly of representation when the Rent Negotiation Act

was passed in 1978. The dispossession alternative was taken up a cumbersome road of tenant-initiated conversions to cooperatives. The program did, however, never really make any change in Sweden's tenure pattern.

The Swedish development since 1982 presents a more glaring discrepancy between actual and predicted patterns of privatization. The mainly 'market-weak' Social Democrats - throughout the postwar period firmly linked to the policy network of the 'social' housing policy - formed a minority government. In critical votes, they could count on support mainly from the outspokenly 'market-weak' Leftist-Communists. That the Social Democrats would then opt for def financing housing consumption in the owner-occupied and cooperative tenures so critical for a widening of their power resource base - (and at the same time def finance public rental production) - simply does not fit in with the logic of the power resources approach. Theoretically, they should have done so only if they had been in a secured power position.

In some respects, the Norwegian pattern follows predictions. The Conservative-led coalition enjoyed a slim parliamentary majority. It faced an institutional setting with a very concentrated and autonomous system of public finance covering nearly all new housing, and a high interest mobilization in the one-fifth of housing located in the cooperative sector. As expected from a 'market-strong' party or coalition, nothing was done to def finance housing consumption in the owner-occupied and cooperative sectors. As could also be predicted, the Conservative-led coalition took deregulatory measures to tap the prospective constituency of 'market-strong' voters aspiring to individual or cooperative home ownership. It should be noted that this also included regulatory measures to break the autonomy of earlier Social-Democratic strongholds in the cooperative bureaucracies. However, the predicted run on public financing of production amounted to a small step; the increase of market-interest loans was not dramatic.

When the Norwegian Social Democrats came back to power after the breakdown of the Bourgeois coalition, they faced a parliamentary situation where jumping majorities would make policy-making quite capricious. We predicted that in such a situation, a 'market-weak' party would have little chance of pursuing a strategy of def financing 'market-strong' housing consumption in home ownership and cooperatives. Furthermore, one would expect such a party to use regulation/deregulation to satisfy mobilized - and earlier affiliated - interests. It is true that the Social Democrats achieved some small def financing of housing consumption in the 'marketable' sub-sectors. However, the overall pattern indicates that the ideologically 'market-weak' Social Democrats seem to have accepted the privatization measures of the Conservative-led coalition.

Remains the Dutch case. The Center-Right coalition held power in an institutional setting characterized by criss-crossing policy networks with high mobilization of all affected interests. Within the leading parties, 'market-strong' and 'market-weak' fractions have fought to determine the party agenda. We predicted that such a situation would lead to def financing of production, regulations to create a more 'state-directed' implementation, and dispossession of housing to tenures not very amenable to interest mobilization.

We have found that when the 'market-strong' fractions of the Center-Right parties took control over party agenda, defunding of housing production did follow, and dispossession of Housing Association dwellings would be allowed. And although the regulatory parts of the new Dutch housing policy seem to point in several directions, we can find distinct traces of measures establishing crucial central government control over issues which are implemented by the 'corporatist' policy network.

6.2 Fiddlers on the Roof? 'Market-Strong' and 'Market-Weak' Parties and the Building of Power Resources

Stated in its original form, the 'power resources' approach contends that there is a direct relationship between the rise to political power of actors and collectivities "which are weak in terms of their market resources" and welfare state expansion. This is so "because the potential gains, which come to an actor from limiting the sphere of market operations, and market criteria in distribution, will increase with decreasing market capacities of the actor." (Korpi, 1987:9 ff.). Although there is a tendency that 'market-weak' Left parties have been more prone to build comprehensive welfare programs than 'market-strong' Right-wing parties, there is much empirical evidence against the original thesis. The more elaborated 'power resources' approach therefore adopts a game-theoretical perspective "where the decisions made and the strategies adopted by each actor are seen as affected by the actor's perceptions of the relative power and probable choices of other actors." (Korpi, 1987:12).

This modifies the assumption that actors seek political power only to promote their long-term goals concerning the 'proper' demarcation between state and market. To a considerable extent, their actions can also be explained as calculated moves to gain or retain power in a competitive political environment. In the developed capitalist democracies with an expanding middle class, parties representing 'market-weak' or 'market-strong' segments in society, and trying to change the boundaries between the private and public sectors must compromise. They have to adjust their policies to the necessity of expanding their constituency beyond their historical strongholds.

As was pointed out in the introduction, this modified version makes the political parties' efforts to maximize their power resources the central explanation of welfare state development. However reductionist this may sound, let us use it to comparatively analyze our four cases to see how far it carries us, and to assess what it can not satisfactorily explain on its own. This will put us in a better position to assess the importance and weight of the institutional setting for the patterns of welfare state contraction found in our four nations.

At first sight, the British case seems to be cut right out of the 'power resources' handbook. Thatcherite Conservatism held a comfortable power position throughout the 1980's on a pronouncedly 'market-strong' ideology, emphasizing private initiative over public intervention across much of the traditional welfare state terrain. In housing, it could field the dispossession alternative knowing from series of polls that

this was in line with the desires of around three-quarters of British households. Since homeowners vote heavily Conservative, there was thus a considerable power resource base to be tapped, but this also meant that homeowners' tax subsidies should not be touched.

The Conservatives could furthermore definance public rental housing because (a) that sector held only one-third of the British households, and (b) the shrinking number of public tenants would also mean losses to Labour's traditional 'power resource' base. As already mentioned, the use of regulation could also be interpreted as a rational choice; in this way, the Conservatives could make sure that 'unfriendly' power bases were brought under control in a more 'state-directed' policy network.

Still, this rationalist argument does not seem to provide a wholly satisfactory explanation. Admittedly, the Conservatives gained electorally from the Right-to-Buy program. In terms of the net contribution to the power resource base, however, "new council house owners had a weaker overall impact on the vote; the Conservatives benefited by just under one percent, net of other things" (McAllister and Studlar, 1989:172f.). Why then continue to transform public rental housing into individual home ownership, especially if a successful program would lead to an ever-decreasing marginal rate of return of Tory votes? Second, how could a Conservative government with far less than the majority of the voters continue its 'adversary' privatization policy seemingly without any thought of accommodating other views?

One answer compatible with the 'power resources' argument is the obvious Tory conviction that in the long run, the party would benefit politically from an increasing constituency thanks to increased individual home ownership. The main thing "was to carry out policies the elite believed in, not to lose votes", something the Tories achieved (McAllister and Studlar, 1989:174). Also in the long run, this would alter the game; Labour had already in the 1970's showed signs of favouring individual homeownership. In the future, Labour could not afford to do anything against perceived interests of the two-thirds now in owner occupation, or against new purchasers, without the risk of losing dearly needed power resources (Williams, et al 1987:275).

However, the second question just posed points to the necessity of discriminating between types of 'power resources'. One cannot, as the general argument of this approach suggests, view power resources in the form of a voter constituency and political resources in the form of a parliamentary majority as one and the same thing. In the British case, there are obvious institutional features in operation in the electoral system to make the two very different from each other. In the other countries, such features are construed so that the number of parliamentary seats will more truly reflect the share of votes gained in elections. With proportional representation in a multi-party system, the ruling party's or coalition's privatization strategies may be more "affected by the actor's perceptions of the relative power and probable choices of other actors" in the parliamentary arena.

Norway seems to be a case in point. The Conservatives were carried to power in 1981 on "The Rightist Wave", and later formed a coalition with the Centrist bourgeois parties. They skilfully utilized the pressure pluralism built up in the

housing market by deregulating the cooperative sector and allowing for more favourable private financing outside the State Housing Bank. Ironically enough, however, the party winning the most from the privatization issue has been the extremely right-wing Progressive Party. Gaining a pivotal parliamentary position in 1985, it soon helped the Social Democrats to power. Since the Norwegian constitution prevents the dissolution of Parliament during the mandate period, the Social Democrats were stuck to manage a minority government (Lafferty, 1990:94 ff.).

The obvious popularity of "the Rightist Wave" - illustrated by the dramatic increase for the Progressive Party in the 1987 local elections - made for an accommodating Social-Democratic housing policy. As part of their ideological reorientation, the Social Democrats did nothing to turn the clock back to the non-market distribution of cooperative dwellings existing up to the Conservative-led privatization. And to gain such power in the long run, they would have to win over the large segments of 'market-strong' voters benefiting most from the Bourgeois privatizations. As one student of Norwegian politics puts it:

(T)he party apparently feels that it must become less ideological, more pragmatic, more oriented to the wants rather than the presumed needs of voters. Social democrats must, in short, prove that they are better managers of the existing public household, rather than constantly trying to persuade people to move to a new and better neighbourhood (Lafferty, 1990:98).

The Dutch case is difficult to interpret in the 'power resources' perspective. The confessional Christian Democratic Appeal formed a coalition together with the right-wing Liberals since 1982. The coalition was primarily held together by the commitment to austerity measures, including cuts in public support to housing. This came at a time when "confederal forms of concertation" (Daalder, 1989:14) across the whole spectrum of housing sector interests supporting the established public-private mix tended to break down under the influence of 'depillarization'. Already the 1985 program indicated that the Center-Right coalition was inclined to side more clearly with the 'market-strong' interests.

What some call the 'dealignment' in Dutch housing policy following the 1988 Memorandum (Boelhouwer and Priemus, 1990) could be interpreted as a move by the Center-Right parties to gain support from a larger share of the 'market-strong' households actually living in Dutch 'social' rented housing as a result of that sector's non-supplementary character. The interpretation of the 'muffled voice on regulation' as predominantly a means of achieving control over the activities of the policy networks is in line with the 'power resources' argument. The Center-Right coalition wants to make sure its 'market-strong' privatization policies are not lost along the road of implementation. In the longer run, a relative success for the Center-Right privatization program would leave the Dutch Social Democrats in much the same position as their British or Norwegian comrades. To compensate for a shrinking power resource base in 'social' rented housing, the Social Democrats will be forced to make concessions to households in 'market-strong' tenures.

If that was the calculus of the coalition, the voters, i.e., the prospective power

resources, do not seem to have followed suit. The outcomes of recent elections suggest that the Dutch electorate is not yet as likely to vote according to the economic theories of voting underlying the 'power resource' approach. What the Center - the Christian Democratic Appeal - gained in 1986, their (right-wing) Liberal coalition brethren lost. And the 1989 elections put back the very 'market-strong' Liberals even further, making way for a coalition between the CDA and the Social Democrats (Wolinetz, 1990)!

Does the Dutch case indicate that existing cleavage lines still mean enough to complicate the simple 'market-strong'- 'market-weak' divide (cf. Wolinetz, 1990:286)? Or is it that the very short-term perspective implied by the game-theoretical variant of the 'power resources' approach has tossed the baby out with the bathwater of the earlier, more long-term and structural 'labour movement' thesis? As pointed out in Chapter 1, this thesis builds on the assumption that actors on each side of the capital - labour divide seek power, not just for power's sake, but to be able to adjust the boundaries between market and state to satisfy the long-term interests of their constituencies (cf. Korpi, 1978).

But even allowing for this more long-term perspective, how are we to account for the Swedish case, which does not seem to suit the 'power resources' theory? We predicted that a 'market-weak' party in a balanced power situation would find it strategically difficult to definance housing consumption for the 'market-strong' voter segments, more so the larger those segments are. How, then, could the Swedish Social Democrats with their traditional base among the shrinking 'market-weak' segments and thus in need of the 'market-strong' vote to stay in power, opt for an across-the-board definancing of housing production and of housing consumption costs in the 'market-strong' tenures? Did they interpret their return to power in 1982 - after the first tax reform hitting the owner-occupiers' housing consumption - as a signal that the 'market-strong' voters could still be counted on in sufficient numbers to keep the Social Democrats in power?

Even if the answer is yes, the 1984-85 state housing tax reform shows how anxious the Social Democrats then were to secure the tolerance, and support, of the homeowners. But how are we to explain the massive definancing set in motion around 1990? Leading a minority government, the Social Democrats joined with the Liberals - who had fought the state housing tax! - to enact a tax reform which hit hard on the 60 percent of the households with 'marketable' dwellings. And the ensuing reform of housing finance implies a definancing of housing production which will subsequently hit housing consumers regardless of tenure position or strength in the market, as well as ideologically alienating some of the crucial support from the 'Popular Movements' coalition (cf. Lundqvist, 1988c).

One line of explanation to save the 'power resources' hypothesis may be that the Social Democrats actually thought the reforms would break even for crucial parts of the electorate, and thus not affect their power resources too badly. As for the tax reform, the increase in household purchasing power following from less income tax would be enough to offset the decrease from 50 to 30 percent of tax-deductible mortgage interest for large segments in owner occupation. The staunch defence of the public housing sector, could also be seen as a reflection of this endeavour to

include all inhabitants of the 'People's Home' when the cost of managing it threatened to become unbearable.

On the other hand, the calculations about 'winners' and 'losers' of the combined tax and housing finance reforms contain several *ceteris paribus* assumptions which may not turn out valid. Several examples given during the rent negotiation campaign in the fall of 1990 point out that the 'market-weak' renter households will be much worse off as a result of the tax reform and the new system of housing finance. In any event, the shift from the 1980's to the 1990's witnessed a radical decline in political 'power resources' for the Social Democrats. In December 1990, one poll had the party's support down to less than that of the Conservative party, losing nearly one-third of their support compared to the 1988 elections (TEMO). The 1991 elections brought in a new Bourgeois coalition government. Although data do not permit such a conclusion at this point, it can not be ruled out that the privatization reforms in housing finance have a role in this 'power resources' shift in Swedish politics.

Let us summarize. There does seem to be an association between privatization in housing and the political power position of 'market-strong' parties in the 1980's. In Great Britain, the Netherlands and Norway, Conservative, Conservative-led, or Bourgeois governments have initiated privatization measures which diminish the role of the welfare state, and strengthen that of the market in the housing sector. The overall privatization pattern has meant cuts in direct production subsidies, and in public ownership, to all but a small sector of housing designated for the (certifiably) 'market-weak'. Marketable housing tenures, have been favoured, as households living in those sub-sectors have continued to enjoy indirect public support to housing consumption. Sweden, however, is the deviant case. The most wide-ranging privatization measures in Swedish housing have been taken by a Social-Democratic government in connection with policies of expenditure cuts and tax reform.

However, we have also found much wanting in this line of argument. Even in the British case, the seemingly perfect match between theory and practice showed the need to go beyond the actor perspective. And provided one does not stretch the 'power resources' approach beyond its theoretical limits, it fails to give us a satisfactory explanation to the Swedish case. Furthermore, the Dutch experience seems to contradict the rationalistic assumptions about voter behaviour underlying the 'power resources' approach. Finally, the approach allows mainly for such general conclusions as the ones just presented; it does not give us much of a clue to the **different patterns** found in the earlier chapters and the summary above. It makes political parties aspiring to power look like fiddlers on the roof, always playing the tune that will maximize their political 'power resources'. But sitting on a roof implies some sort of structure below. That structure provides the acoustics; some tunes will resound throughout the building, others will simply bounce off the wall.

6.3 Up Against the Wall? The Structural Effects of Earlier Interventions and Established Policy Networks

To translate what was just said into political science jargon, it is important to recognize that goal-seeking politicians are all acting within an institutional framework which they have to take into account, since it may promote or block proposed reforms. As pointed out in the introductory chapter, we must not look only at such general institutional political system features as electoral systems, party structure, and parliamentary systems. We also have to take into account that modern welfare state intervention has led to different types of institutionalization in different countries, not the least in the housing sector.

To sum up the argument from Chapter 1: in addition to the general political system features, three contextual dimensions seem highly relevant in explaining why patterns of privatization in the housing sector differ among countries. They are (a) the legacy of earlier policy; (b) the strength of public bureaucracies, and (c) the organization of affected interests. A housing sector characterized by limited intervention, dependent and dispersed bureaucracies, and a low degree of organized interest mobilization provides a different institutional context for privatization than one with comprehensive intervention, concentrated autonomous implementation structures, and highly mobilized sectoral interests. Insofar as the countries studied here differ on some or all of these institutional dimensions, we would expect this to show in the patterns of welfare state contraction that have developed during the 1980's.

We have already indicated that several features about the British privatization pattern reflect the peculiarities of Britain's political system and housing sector. The election system provided the Thatcher government with a comfortable parliamentary majority to go ahead with drastic privatization measures despite actually losing some percentage among the voters during the 1980's (cf. Smith, 1990:373). We could further illustrate what the privatization-prone Tories were up against in terms of institutional hindrances or possibilities by summarizing the 'pressure pluralist' policy network prevailing in British housing at the end of the 1970's:

(1) A local government and bureaucracy with no constitutionally provided competence to act for the benefit of the people within their jurisdiction, instead deriving most of authority in housing from specific statutory powers conferred upon them from Parliament, and from unconditional block grants; (2) A large (one-third of total) stock of rental housing, directly owned and managed by local authorities, with no coordinating and mobilizing national organization on either the public landlord or the renter side; (3) A highly mobilized organization of housing finance geared towards private housing in the form of the Building Societies and their national Association; (4) A building sector dominated by firms possessing land reserves and building according to their own judgment of market developments rather than depending on publicly financed housing programs.

For the Thatcherite government intent on curbing local governmental power, the lack of a constitutionally guaranteed sphere of local independence meant that central legislation could easily be used to rob local authorities of whatever leverage

they did have towards central government (cf. Travers, 1989:19). It also made it possible to bypass local authorities by giving the public tenants a legal Right-to-Buy, thus further disabling local governments. With a large stock of more than 6.5 million public rental dwellings, the Conservatives could be sure that a large part of the pent-up tenant demand for home ownership could be satisfied.

The British pattern of privatization is also a reflection of the context of organized interests prevailing in the housing sector. Tories, among others, had long depicted the public rental sector as a second-rate alternative, thus effectively pitting prospective movers or buyers against stable council tenants. There was no strong national tenant organization. Neither were there any organized relations between local housing authorities and tenant collectives like those existing in Sweden through the corporatist order of rent-setting. Used by Tories "to their political and ideological advantage....tenant participation became intricately and explicitly interwoven with the ending of local authorities' role as landlords" (Hague, 1990:250).

There were thus no formidable structural hindrances for the Thatcher government's efforts to build a 'state-directed' policy network in the public sector. Where the Thatcher government would really have been up against the wall, however, was if they had def financed owner-occupied housing consumption. This would have gone against the interests of the private financing and building network, because it would have altered the conditions under which the British speculative firms operate in the market (cf. Dickens et al., 1985:83 f.). Here, Conservative 'market-strong' ideology, strategic power resources considerations and the institutional context worked in concert. For the able to prosper, there must be a functioning private market for housing. That this also had to include massive housing consumption support to the able, despite their low level of mobilization, is a puzzle we leave for the next section.

How different the situation in both The Netherlands and Sweden! Their governments were facing a well established policy network, including interdependent national and local bureaucracies as well as highly mobilized interest organizations in both the public and private sectors of housing, possibly with the exception of individual home owners. In both countries, national-local housing programs, and widespread local land ownership in combination with public support to housing construction, made also the private builders dependent on the existing public-private mix.

There were, however, also some important differences. The Dutch government in power for most of the 1980's was a Center-Right coalition. Sweden had a Social Democratic government since 1982 with no parliamentary majority of its own. Whereas 'market-strong' - 'market-weak' cleavages in Sweden went along party and interest organizational lines, they cut right through the Dutch parties. The strong Dutch social rented housing sector (41 percent of the total stock) was organized along the 'pillar' lines permeating Dutch society. The Swedish public rental sector (just over 20 percent the total stock) was a stronghold for the Social Democrats. Traditionally, the large Swedish cooperative sector had also been counted in the 'Popular Movements' Coalition. In the Netherlands, organized interests had a much

more formal affiliation with central government through the representation of all concerned interests on the **National Advisory Council of Housing**. They were also consulted before the 1988 Memorandum was finalized (cf. Boelhouwer and Priemus, 1990:106).

No wonder, then, that the privatization efforts were relatively late in coming in these countries. In The Netherlands, they seem carefully structured so as not to run into institutional hindrances. For the strong 'institutional investors', there was deregulation of rents in the 'upper' private rental market, as well as the withdrawal of public lending to new housing. For the local administrations, there was decentralization and lesser direct control from central government over individual projects (cf. Fleurke and de Vries, 1990:40). The central administration could look forward to a continued role of control and expertise. And for the 'social' Housing Associations, there was the promise of greater 'self sufficiency', although this was undercut by the necessity to get new, non-subsidized loans from the market.

It is most interesting to note the way the least mobilized interest groups - the housing consumers in owner occupation and renting - are treated. Both will of course suffer from def financing of housing production, as loans obtained in the market become more expensive with rising interest rates (cf. Boelhouwer and Priemus, 1990:116 f.). But whereas public support to rental consumption was intended in the 1988 Memorandum to be limited to those in 'real need', owner occupiers will continue to enjoy generous tax deductions regardless of income. Again, we find a lowly mobilized interest wooed by a privatizing government.

Not so in Sweden. The def financing of consumption instigated by the 1985 state housing tax was cast in terms of 'solidarity'; all housing consumers should take part in the subsidization of new housing. And the massive, across-the-board def financing of both production and consumption of housing following the 1990-91 tax and housing policy reforms seems to make a breach in the wall of the entire policy network. The interests within the 'Popular Movements' Coalition' will all be hit by this privatization of housing costs. So will producer interests insofar as the new system of finance leads to decreased volumes of new production. The lowly mobilized homeowners - the National Homeowners' Association is supposed to gather 30 000 of the 1.7 million homeowners - will also carry a larger burden of housing costs.

In fact, the Swedish pattern shows such differences from the ordinary interactive process between political actors and the institutional context as to merit some further description. In the process leading up to the 1974 reform of housing finance, organized interests - in particular the 'Popular Movements' Coalition - played a central role in the investigations leading up to the final Cabinet bill. Leading a minority government with parliamentary tolerance from the Leftist-Communists, the Social Democrats turned to the Liberals to anchor the reform.

So they did also in the process of the 1990 tax reform. However, the final principles of that reform, and the decision to finance large parts of it by cutting housing subsidies, were taken in very short and hurried negotiations with the Liberals. And the preparatory work of a new system of housing finance was done by one man - the former Under Secretary of Housing - with no organized interests

represented on that Commission. To dare a speculative comment, this may be a harbinger of the breakdown of the 'corporatist', sometimes even 'concerted' network underlying so much of the earlier welfare state expansion in Sweden.

Remains the Norwegian case. Here, the privatizing Conservative government faced three policy networks. One evolved around the State Housing Bank and the municipalities, with the latter owning and developing much of the land used for building purposes in cities and towns. That network very much influenced the production volumes by providing government with data. Another had developed around the private financing institutions and building firms; however, the latter also had an interest in the generous financing through the State Housing Bank. Then there was the cooperative network, involving the mighty National Association of Cooperative Building Societies and the municipal bureaucracies. Of course, the cooperative sector was dependent on the State Housing Bank for finance. At the same time, its bureaucracy was a traditional Social-Democratic stronghold.

Evidently, the State Housing Bank was the key institution. But so was the peculiar strength of the homeownership culture in Norway. Nurtured by postwar policy, not the least by State Housing Bank loans, individual homeownership and individual self-build had become an institutionalized 'Norwegian way of life'. To propose, or even worse, implement policies which would prevent some groups from having a piece of this cake could thus send political actors bouncing down the steps to the political basement.

If we look at power resource-building parties as trying to make rational choices within given institutional contexts, the privatization patterns developed in Norway seem to provide a next to perfect case. The very deliberate moves of the part of the Conservatives to increase private financing and decrease the power of the State Housing Bank without discriminating newcomers in the owner-occupied or cooperative markets shows how they took in the institutional context in their assessment. And the delicate deregulation of cooperative house prices, together with continued cooperative self-regulation on other matters, was also a shrewd adjustment to existing institutional forces. Finally, the unwillingness of both Conservative and Social-Democratic governments to definance housing consumption in the owner-occupied sector bears witness to the pervasive strength of the institutionalized home ownership culture in Norway.

6.4 Creditors at the Doorstep? Economy, Ideology, and the Politics of Privatization in Housing

I began this comparative analysis of privatization patterns in housing on the premise that from the mid-1970's, the advanced welfare states seemed in fiscal trouble. Governments found it increasingly difficult to make ends meet. Taxes were raised and expenditures cut, yet deficits kept growing. Wherever governments looked, creditors seemed to be at their doorstep. In response to this crisis in public finance, politicians began discussing and sometimes also implementing a 'retrenchment' or 'contraction' of the welfare state. To many politicians, a 'return to the market'

seemed the solution to the diseconomies of the welfare state.

Seen from this angle there is one particular pattern found in this comparative study that merits further attention. In some way or another, all the countries studied have **definanced housing production**. They have done so in accordance with the prevailing tenure structure and pre-existing subsidy patterns (cf. Figure 6.1), and given the private financial market a greater role. This privatization pattern makes sense if we think that the economic crisis of the welfare state is the major force behind the retrenchment process of the 1980's.

However, what does not make sense from this economic point of view is the continued **financing of housing consumption in marketable tenures**. In all the countries, owner occupiers and cooperative owners still enjoy the right to deduction of mortgage interest from taxable income. As we have seen in the previous chapters, this subsidization has grown throughout the 1980's. In Britain, as well as in The Netherlands and Norway, it is the single largest item of support to the housing sector. The same has been true of Sweden. However, the new system of taxation now being implemented in Sweden makes that country stand out as the only one to take serious measures to definance housing consumption in these sectors.

In the individual country chapters, I have tried to illustrate how the policies of privatization chosen by individual governments reflect, within broad institutional constraints, the strategic objectives of the party in power. But I have also tried to indicate that parties select policy alternatives not only to gain 'power resources' but also "through a filter of different political ideologies regarding, among other things, the desirability or otherwise of different forms of social and economic organization and activity" (Hamnett, 1987:209).

Even if there is thus no universal policy pattern set by the necessity to maintain the economic balance of the welfare state, the near universality of the continued subsidization of households in marketable tenures is remarkable. That there is an ideological component at work is clear. Home ownership, whether individual or cooperative, is seen by political parties as a most desirable form of housing. While this has been given its most pregnant formulation by the British Tories and other parties to the right of the ideological spectrum, it is true that many parties to the left have showed eagerness to encourage home ownership.

This was, of course, the historic choice of the Social Democrats in Norway, as they opted to free the Norwegians of the 'yoke of (private) landlordism' (cf. Torgersen, 1987:123 f.). In Britain, on the other hand, the Labour Party launched its postwar housing policy on the premise that public rental housing should be encouraged. Gradually, however, Labour adopted the view of home ownership as the preferred, 'natural' tenure (Forrest and Murie, 1988:33). And in The Netherlands, the earlier view that all tenures should be supported has given way to another: "No longer is the **dwelling** a merit good but the **owner-occupied dwelling!**" exclaims a recent analysis. Although the Social Democrats have since entered the government, the 1988 Christian-Democratic Memorandum "will not be consigned to the waste-paper basket" (Boelhouwer and Priemus, 1990:116).

Since studies in housing sociology show a general tendency for 'market-strong'

households to dominate in marketable tenures, the support from parties favouring market solutions in housing is not difficult to understand. But why do 'market-weak' parties in power continue to support owner occupation? Even if we accept Adams' (1987:142) contention that under conditions of privatization, organized building interests "lobby for measures that will maximize consumer demand for housing", this does not provide the full picture. The dramatic socio-economic changes in modern industrialized nations, to a considerable extent brought about by the very success of an expanded welfare state, have altered the traditional 'power resource' bases of political parties. To gain or retain power in a competitive political environment in the developed capitalist democracies with an expanding middle class, parties trying to change the boundaries between the private and public sectors are constrained in their choice of alternatives by the need to expand the party constituency beyond their original power resource base (cf. Quadagno, 1987:116). This is made even more crucial given that the 'market-strong' segments generally have a higher voter turnout than others.

We are beginning to see why the subsidies to households in mortgaged owner occupation remain relatively untouched in an otherwise attacked housing sector. All parties need the support from the voters in that sector, the more the larger home ownership's share of all housing. For such strategic reasons, political parties seem willing to change their ideological stance. They also seem ready to leave aside obvious privatization alternatives which would improve the fiscal situation of the state. To take away the tax subsidies could bring creditors to the doorsteps of too many voters. The power resource implications of that are all too obvious. When home ownership grows to the proportions it has in Norway (four-fifths) and Great Britain (two-thirds), party choices in terms of privatization have become limited indeed.

Still, how are we to account for the deviating case of Sweden? Why did the Swedish Social Democrats not play a more careful tune to the individual and cooperative homeowners? First of all, they worked in a highly mobilized policy network of organized interests with stakes in the existing system. Second, individual and cooperative homeowners together comprise 60 percent of all households. I said earlier that the party's judgment about actual winners and losers from the reform of housing finance may have been that large groups would come out even; the power resource base would thus not be too badly affected.

Another possible explanation is that ideological factors played a central role in the Social Democrats efforts to cope with the fiscal crisis. Seen in the light of the historic Social-Democratic housing ideology and practice of 'solidarity' and 'egalitarian fine-tuning' (Heclo and Madsen, 1987:224 f.), the 1990/91 income tax and housing finance reforms are then nothing but a continuation of the income tax reforms of 1982 and the introduction of the state housing tax in 1985. The "pronounced distributional sensitivities" (ibid., 1989:227) characterizing so much of the Social-Democratic 'social' housing policy after 1946 were still strong enough to make housing policy part of their "application of general decrementalism" to control welfare state expenditures (cf. Walters, 1985:367).

As shown earlier, the development of the Social Democrats' power resource base

has not exactly been favourable in the late 1980's. There is so far no empirical evidence that this is an effect of the 'general decrementalism' in housing policy. It does, however, imply an "uneasy relationship between welfare state purposes and housing policy", particularly in a society with both "welfare aspirations and homeowner dominance" (Torgersen, 1987:116, 125).

6.5 A House Divided on the Move? The Restructuring of Welfare State Intervention and the Politics of Housing

It should be clear from the preceding chapters that the privatization measures taken in the housing sectors of our four European nations have led to some retrenchment of the welfare state. But it is also clear that - with the present exception of Sweden - this change in public involvement has been biased. Production subsidies have been cut, regardless of tenure or characteristics of the household moving in. Consumption subsidies to renter households have also been changed. Generally, eligibility criteria have been sharpened to limit the subsidized group. At the same time, those judged to be 'in real need' get higher housing allowances. Consumption subsidies to owner occupiers have not been touched. They have in fact increased during the 1980's, and are still available to all households with a mortgage.

This has gone furthest in Great Britain, where the choice between the acceptance of fairly comprehensive subsidies, or of considerable social inequalities possibly charged on the social expenditure account (cf. Torgersen, 1987:126) has actually been "both". The homeowners are comprehensively subsidized, the more so as capital costs of market financing increase. The tenants 'in real need' get a mixture of social security benefits and housing allowances.

What has just been said points to some crucial **political** questions raised by the patterns of privatization in European housing. What are the effects on the politics of housing when this divided house moves to new ground, abandoning the production site for the area of consumption? What happens when housing issues become more and more hedged in by other policy arenas, like those of economic and taxation policies? Will housing policies be dictated by assumed voter reactions, with the producer interests receding into the background?

These questions are closely related to the issue of whether it is consumption patterns or class cleavages that are most important in determining how people cast their vote or chose to become active in politics. If consumption patterns really are important (cf. e.g., Dunleavy, 1979; Saunders, 1984), the cleavage emerging in the privatized housing sectors of European nations is particularly crucial. 'Market-strong' households dominate in owner occupation, and that sector increases its share of the total housing stock. 'Market-weak' households, on the other hand, live in a shrinking sector. The former group thus becomes a more and more crucial political 'power resource', while the latter is correspondingly marginalized in terms of political importance.

The efforts to privatize the housing sector through encouragement of owner occupation could lead to a situation, where the least mobilized of housing interests

- the predominantly 'market-strong' owner occupiers - will in effect be directing the future public-private mix in housing. This they would do simply because they comprise the majority of voters, and because political parties seeking or defending power think they **might** mobilize to defend the emerging public-private mix, so favourable to them. Thus, any politician contemplating the defunding of housing consumption in owner occupation must presume that the owner occupiers will actually mobilize and withdraw their power resources.

But how likely is a massive voter realignment over housing issues? As we have seen, the privatization measures leading to a house divided by consumption cleavages between 'market-strong' and 'market-weak' households have been overtly promoted or tacitly accepted across the party spectrum. "Rather than lose their traditional electoral base, parties of the left have endorsed programs which assign the major role to the private market", one example being the British Labour Party (Adams, 1987:145). If clear alternatives are not found, where should disappointed voters turn?

What the Swedish case clearly illustrates is that with privatization, the politics of housing is increasingly moved to other policy arenas, particularly those of economic and taxation policies. However, privatization has made things harder for welfare state governments when it comes to managing the national economy and the finances of the public sector. "Outlays for housing allowances and tax concessions, distributed as entitlements to categories of eligible beneficiaries, are much harder to limit" than the funding of production programs limited by building targets (Adams, 1987:147).

The public move away from production subsidies affects the producers who for a long time have lived in a symbiotic relationship with comprehensive governmental housing programs. They are no longer assured that direct benefits will result from mobilizing to influence governmental bureaucracies. These will have less money, and thus less influence, over the housing market. They may also be dispersed or dissolved, like the former Swedish Ministry for Housing and Planning. The Swedish example shows that when housing policy is hedged in by economic and tax policies as a response to the fiscal crisis of the welfare state, then the housing producers will no longer have a secured position compared to other interests.

This study has shown that European welfare states have moved a long way from the large-scale public programs of the postwar period. But the contraction of the welfare state has not meant a total dislodgment; while withdrawing from support to new production, governments increasingly subsidize the demand for 'marketable' tenures. This changes the politics of housing. Potential consumer reactions to finance and tax policies in a housing sector dominated by such tenures, and a tougher position for housing producers in the intersectoral competition for scarce resources will determine the future of the public-private mix in housing.

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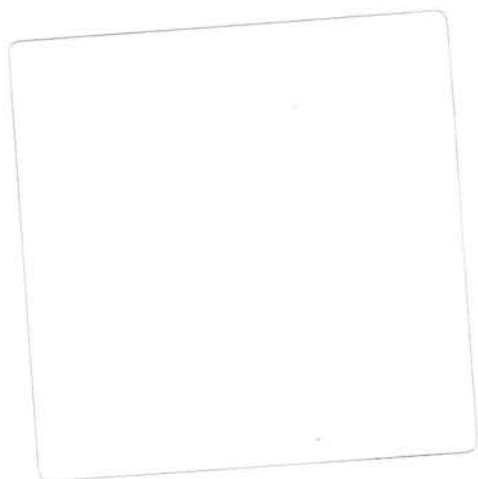
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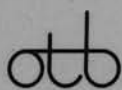
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