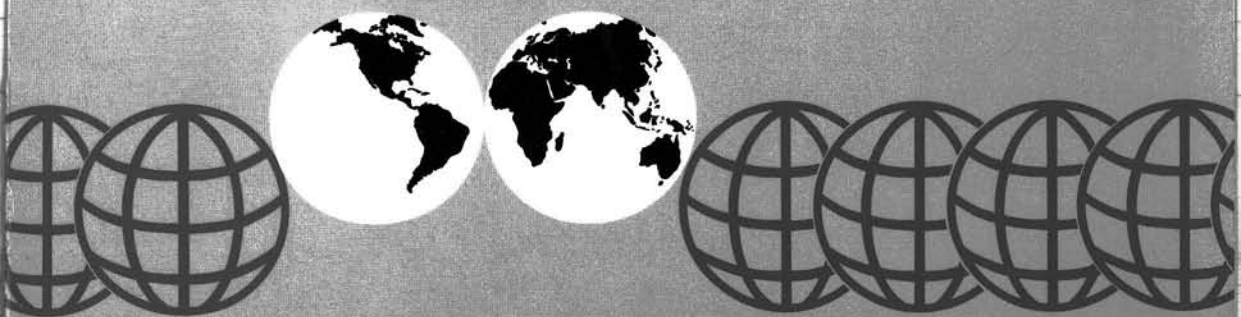


**HOUSING SYSTEMS IN EUROPE:
PART I**
A COMPARATIVE STUDY OF HOUSING POLICY

**Peter Boelhouwer
Harry van der Heijden**



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FOREWORD

This study forms part of research project entitled "Housing Systems in Europe". We are also publishing a companion report called "Housing systems in Europe: part II, a comparative study of housing finance" by O.A. Papa (1992). Two other studies are currently underway. These concern an international comparison of housing costs, and an international comparison of fiscal policy and home ownership in the EC. Reports on these studies will be published in the near future.

An advisory committee guided the progress of the first two studies. This committee consisted of the following:

Drs. R. Spreekmeester (chairperson) - Ministry of Housing

Drs. H.S. van Eyk (secretary) - Ministry of Housing

Ir. W.G. Hulshof - Ministry of Housing

Drs. H. Mersmann - Ministry of Housing

Drs. R.J.J. Roemers - Ministry of Housing

K.J.R. Schiffer - Ministry of Housing

Drs. J.S. Monasch - Ministry of Finance

Drs. M.M.J. Vergeer - Central Planning Bureau

The authors would like to express their gratitude to the members of the committee for their advice and constructive criticism. The authors also gratefully acknowledges the assistance of the many civil servants, researches and organizations abroad that they visited in the summer of 1990. Without their generosity, this report would not have been possible.

Peter Boelhouwer

Harry van der Heijden

Delft, 1992



INTRODUCTION

1.1 Objectives of the study

There is growing interest in what is happening in other EC-member states, partly as a result of impending economic integration in 1992. It is important to know what the competitive situation will be within and between countries in the near future, not only for private enterprise but also for governments, for whom it is necessary to have a better picture of the general context of policies in different fields in the other member states and of the most important institutional and market characteristics. Only then can they adequately prepare for the possible consequences of the harmonization of regulations and policy in time.

Apart from an increasing general interest in the policies being pursued by neighbouring countries, however, interest in the housing sector and the housing policies being implemented in these countries was given an additional stimulus by the publication of a government White Paper on housing policy in the 1990s, the *Nota Volkshuisvesting in de Jaren Negentig* (MVRM, 1989). This document has provided a new framework for the housing sector in the Netherlands, and it is likely to have a significant influence on future housing policy. During debates on this important policy document, the impact and the effect of the proposed new policies on other countries was referred to on a number of occasions.

There has therefore been a growing awareness of the fact that a study of housing systems abroad can, firstly, have an innovating effect on domestic policy making. Secondly, a familiarity with the functioning of housing systems in other countries may serve to highlight particular features, and faults, of the Dutch system. These two observations constitute the background to the proposal for a comparative investigation of the housing systems and their effects in a number of European countries.

The principle objective of this study is, following on from an earlier study carried out by the Nederlands Economisch Instituut (NEI, 1990), to deepen and increase our knowledge of housing policy in seven West-European countries: the Netherlands, Belgium, the Federal Republic of Germany (FRG), Denmark, England, France and Sweden.

There has already been a good deal of research into the functioning of different housing systems. These have been characterized by different methods of approach. Before we discuss the development of the present project, we shall briefly consider the most important of these approaches. Whichever way one eventually approaches and implements the study will have a major influence on the methodology, the choice of subjects to be included in the comparative study, and the explanations offered to account for the differences and similarities between the housing systems described.

As part of our consideration of the different currents in international comparative housing research, we shall outline the design of the present research project. We conclude the chapter by summarizing the first part of the project: an analysis of the general framework of policy.

1.2 International comparative studies

Since the end of the 1970s there has been growing interest in international comparative housing research in many industrialized countries. Schmidt (1989b: 60) has noted that such comparative studies are by no means a new phenomenon. A number of international comparative housing studies had already been published in the 1960s (by Kuznets, 1960; Wendt, 1963; and Donnison, 1967, among others). It took almost two decades before further studies of this type were made. Schmidt argues that this can be explained by the fact that during the 1970s housing research lost contact with the general theoretical and methodological developments then taking place in the social sciences. Despite this, the tide turned at the end of the 1970s and since then there have appeared in quick succession a series of international comparative housing and building studies (including those by Kemeny, 1981; Donnison and Ungerson, 1982; Ambrose and Barlow, 1986; Hallet, 1977; Ball et al., 1988; Kroes et al., 1988; Lundqvist, 1988b, 1990; van Vliet, 1987; van Vliet, 1990; and van Vliet and van Weesep, 1990).

The reasons for this renewed interest in international comparative research are various. Apart from the general interest of academics, it is increasingly important too for politicians and policy makers to understand how the specific housing policy instruments which are employed in different countries are used, and what the effects of these instruments are. Of course, significantly increasing international co-operation between Western countries and the impending economic integration of Europe in 1992 have also been important in promoting international comparisons. The possibility that there will be a degree of policy harmonization in housing just as in other fields of policy has not, after all, been ruled out.

There are various ways in which international comparative (housing) studies can be conducted. In a paper by Harloe and Martens (1987) three types of studies are distinguished. The first is research initiated usually by governments and international organizations and in which the accent is on the collection of

data. Examples of such studies are the numerous reports of the United Nations and the European Community. Because of these publications a great deal of valuable raw data is available. An important disadvantage of such studies, however, is that they are mostly diffuse in aim, they come across as being artificial, and they contain much data which are not comparable with other data. Their greatest flaw though is their lack of underlying theory and the absence of explanations for the features they describe. Sometimes then these studies lead to further questions rather than offering solutions to the problems already identified.

The second sort of study tries to overcome these drawbacks by inviting a number of experts on each country to analyse a number of different fields. The Country Monographs are a good example of this. In theory, this method is a significant step forward. And these studies also attempt to present information within a structured framework. The disadvantage remains, however, that a common framework or structure to country reports is unusual, and as a result of this it is not always possible to compare findings from different countries. Furthermore, these reports also offer no explanation for differences in the housing market processes and housing policy between countries. They lack an overall analysis.

Many studies published in the 1980s also suffer from this shortcoming. Often they appear to offer a detailed and integrated study of one or more aspects of housing or even of complete housing systems, while in fact they contain a number of contributions relating to a particular aspect more or less common to them (van Vliet, 1987; Kroes et al., 1988; and van Vliet and van Weesep, 1990). There is often an introductory chapter or a conclusion, but this cannot conceal the fact that such studies usually consist of a number of separate contributions which do not entirely correspond to one another and that collectively add up to little more than the separate contributions themselves. Many of these books result from papers given to congresses and workshops. Of course this is not invariably the case. It is true though that the number of international comparative research projects based on a set of previously identified problems and employing a theoretical framework is much smaller (Donnison and Ungerson, 1982; and Ambrose and Barlow, 1986), and even then they often concern a specific instrument or element of policy that is studied in a limited number of countries (Kemeny, 1981; Lundqvist, 1988; Ball et al., 1988; and Kroes et al., 1988).

The third type of study primarily aims to compare a specific instrument of policy rather than concentrating on the main lines of policy. Potential policy innovations are often the reason for such studies. The consequences of introducing new policy instruments and the feasibility of introducing them then form a central focus of these studies. Examples of such studies are those which looked at the introduction of alternative forms of mortgages, and schemes to promote owner-occupation. A recent example in the Netherlands is the renewed attention being given to the phenomenon of the building savings scheme. In the case of these studies, however, there is usually little discussion of the social and

political context in which the various instruments of policy are implemented, or of their relationship to housing policy as a whole.

It does not require great powers of imagination to realize that the implementation of similar instruments of policy in another country, and therefore in a completely different context, also leads to completely different and sometimes unintended results. The specific instruments of housing policy form part of a much larger system, and there is often a close relationship between them.

In addition to these often practically-oriented studies, recent years have seen increasing importance being attached by academics to studies of the differences and similarities in the functioning of the housing market in various countries based on a more fundamental and theoretically grounded methodology. The establishment of the European Network for Housing Research was one aspect of this. In addition to describing the housing systems in different countries, the studies made as part of this research programme also tried to provide explanations for the differences in the functioning of the housing market and the consequences of these differences.

In the following section we shall briefly consider how the development of the various housing systems and the differences between these systems can be explained theoretically.

1.3 Convergence theories

As can be concluded from the previous section, it is important to use a uniform and comparable methodology in order to be able to describe and explain the differences and similarities between housing systems in various countries. As a result, it is possible to provide an analysis which covers all of these, and in explaining the characteristics of housing systems an appropriate theoretical framework can be used to relate developments in different countries. The desirability of developing such a methodology is also dictated by the results of research into housing markets in different countries. Until the end of the 1970s most research was dominated by an analysis of the relationship between supply and demand for housing, with particular emphasis being placed on policies affecting the owner-occupied sector. These studies left many questions unanswered though. These shortcomings can partly be ascribed to the failure to consider important factors exogenous to the housing market but which nevertheless have significant effects on the housing market, factors such as social change, economic developments, demographic trends (including changes in household composition) and the establishment and functioning of financial institutions. Further, government land-use policy, construction policy, technological change, and other socio-economic factors are also of considerable importance in the development of housing.

The fact that such autonomous factors were neglected can be traced back directly to the most important theoretical developments in housing market studies up to the mid-1980s. Wilensky et al. (1987) showed that research into the development and functioning of the welfare state has been dominated over the last twenty years by socio-economic convergence theories. The fundamental idea behind this enduring dominant paradigm is that there is a relationship between the level of economic development of a country or society and the level of public expenditure on welfare, such as social security, care and nursing, housing and education. Notwithstanding the differences in cultural and social characteristics of different countries or societies, economic progress undermines the traditional structure of care, including assistance offered by families and that offered by the private sector and charitable institutions. This process is also explained by the natural or logical development of industrial society into a complex post-industrial society.

Despite the fact that this theory has been dominant in social studies during the last twenty years, there has been a good deal of criticism expressed over the years about this method of approach, and particularly about the functional-mechanistic character of the theory (by, among others, Giddens, 1976; Skinner, 1976; Kemeny, 1981; Kemeny, 1991; and Schmidt, 1989a). Despite these criticisms, convergence theory forms the theoretical framework of much social scientific research, including most (comparative) housing research.

According to Schmidt (1989a), much of this (comparative) research can be traced back to the work of Donnison, and particularly his 1967 book *The Government of Housing*. The central idea of this book is that because of an increasing correspondence between economic and demographic developments in countries, and despite party political, ideological and/or institutional differences between countries, housing policy also converges. In 1982 Donnison and Ungerson published a modified version of this important book. In it they make a distinction between a marginal and an institutionalized housing policy. The first strives to ensure a basic level of housing quality and concentrates on helping the weakest in society. The authors argue that this form of housing policy is principally followed by moderately developed industrial societies. As industrial growth continues, housing policy also takes on a more institutional form. The government then develops a complex policy directed both to the construction and the distribution of housing and the management of the housing stock. The principal aim of government policy here is to increase the level of the stock of public housing. In order to achieve this, an extensive set of policy instruments is developed in order to ensure a degree of equality, an increase in the quality of housing and a reasonable distribution of expenditure on housing. It is true that in many countries in Western Europe the differences in economic and demographic structures has been reduced, as a result of which housing policies and housing market processes show an increasing degree of convergence. Despite clear differences in the political backgrounds of the different governments, there has been both a quantitative (involvement in more fields of

policy) and a qualitative (more far-reaching policy aims) increase in the scope of government activity, an increase which is related to the growing demands and requirements of a post-industrial society.

Many leading researchers still subscribe, explicitly or implicitly, to this point of view. Schmidt notes quite rightly though that there is little empirical support for the principles which lie behind this theory. The theory itself has mostly yielded hypotheses and a number of descriptive studies.

In order to be able to assess to what extent the housing markets and the housing policies in different countries in Western Europe have tended to converge over the past few decades, Schmidt built up a housing data base. Given the number of countries for which comparisons were made (eighteen), it was only possible to compare very general characteristics. The sources for these data were mostly those compiled by the OECD, Eurostat, etc. The data were collected for eighteen industrialized countries for the period 1970-84.

The most important indicators for this period are given in Table 1.1. We can thereby get an indication of the housing market situation in the eighteen countries and, more importantly, to what degree the different countries have tended to converge or diverge.

Table 1.1 Housing market characteristics and housing policy in 18 industrialized countries, means (M) and coefficients of variation (CV)

Housing market characteristics	beginning of 1970	mid-1980	change		in CV
	M	CV	M	CV	
1 Housing construction per '000 population	8.7	26	6.1	31	+5
2 Proportion of single-family homes	52%	42	66%	21	-21
3 Proportion of new homes with 1-2 rooms	12%	52	10%	62	+10
4 Proportion of new homes with > 4 rooms	49%	39	55%	36	-3
5 Number of homes per '000 population	330	11	398	13	+2
6 Proportion of households in rented sector	45%	28	39%	37	+9
7 Proportion in owner-occupation	50%	27	58%	24	-3
Housing policy					
8 Public expenditure on housing (\$ per person)	24	88	25	78	-10
9 Public expenditure on housing as a proportion of total public expenditure	2.1%	71	2.1%	57	-14

Note: characteristics 3 and 4 are based on only 14 countries; the coefficient of variation (CV) is calculated by multiplying the standard deviation (σ) by 100 and then dividing by the arithmetic mean. Public expenditure is given in 1970 prices.

Source: Schmidt (1989a: 88)

Table 1.1 shows that the coefficients of variation averaged around 30 at the beginning of the 1970s (implying a moderate degree of correspondence). It is clear that by the middle of 1980 the underlying differences in the seven housing market indicators were greater. In general, the differences in the coefficients of variation were greater, and we can therefore conclude that there was a degree of divergence between countries. This is true for all the indicators excepting that relating to the proportion of single-family houses in new housing. This proportion increased in almost all the eighteen countries included in Schmidt's study.

In the case of these particular housing indicators the degree of differentiation declined, although the differences remained substantial. On the basis of a further analysis of the data, Schmidt (1989a: 89) argues that there was a clear convergence in the 1970s while in the 1980s the differences increased.

On the basis of the above data, Schmidt concludes that it cannot be demonstrated that housing policies or the housing market situation in the eighteen West-European countries tended to converge in the period 1970-84. If there was any change then it was one of divergence, particularly in the 1980s.

This conclusion is also supported by an analysis of the relationship between economic and demographic factors and housing market characteristics in the different countries. According to convergence theory, the development of housing policy and the housing market is principally determined by the above factors. Schmidt's statistical analyses suggest that variations in housing market variables can only partly be explained by differences in demographic and economic conditions. In the case of per capita expenditure on housing, there appears to be no relationship at all with economic and demographic conditions (Schmidt 1989a: 91).

On the basis of this result, Schmidt concludes that it is apparently necessary to employ other explanatory models in order to account for the differences in housing policy and housing market characteristics in industrialized countries.

In the past few years alternative methods of approach have been developed which challenge the long-held orthodox view that housing policy is simply determined by the demographic and economic structure of a society. Thus a current of thought can now be distinguished that interprets housing policy in terms of the political orientation of the government, a current whose existence derives from corporatist-institutionalist ideas, and another that attributes much importance to the provision of housing.

1.4 Provision-oriented and institutional methods of approach

An alternative approach to research, one that has proved useful for general comparative housing studies since the mid-1970s, is termed "a structure of housing provision" (SHP). This approach distinguishes between different social

groups that can influence the way in which the provision of housing and housing services comes about. Determining the relationships between these groups is considered to be essential in investigating many issues associated with housing. This approach explicitly recognizes that processes of dynamic change take place in the world, as a result of which the investigation of institutional changes forms a key empirical question for housing related research (Ball and Harloe, 1990: 1). In particular, according to those representing this approach, the study of changes is crucial. In this, the approach is distinguished from policy-oriented approaches to housing research, such as that discussed in the following section. The context in which housing market processes operate is subject to continual change, and to get a good insight into the changes in the provision of housing and housing services it is precisely these changes that have to be recognized.

In the SHP approach the relations of consumption and production, as well as those of exchange, are analysed. Many critics of SHP approach claim, erroneously, that it is only the relations of production that are studied (Ball and Harloe, 1990: 3). Apart from that, the SHP approach is explicitly not presented as a theory of housing. It provides a context within which many housing related issues can be examined. It certainly does not specify what theoretical approach should be adopted in explaining the differences observed. For this one has to rely on existing explanatory models, such as those based on neo-classical, Weberian or neo-Marxist analyses.

Harloe and Martens (1987) too subscribe to the proposition that housing market processes in every country are a product of the specific interaction between political, economic and ideological factors. So the size of the owner-occupied sector cannot be explained simply by the fact that countries support a policy of privatization. Even so, it is often tempting to resort to such general abstract explanations (see the explanation for the development of home ownership given by Kemeny in 1981). In practice the owner-occupied sector in the underdeveloped regions of France fulfils a completely different function than it does in, for instance, the south-east of England. Furthermore, the non-profit rented housing sector is organized very differently between countries. As a result, public sector rented housing in, for example, Great Britain is much more vulnerable to policies of privatization than in the Netherlands or Denmark. A clear example of this is the sale of public sector rented housing to sitting tenants. This policy was championed in the 1980s by various West-European governments. And yet it was only in Great Britain that it met with any success. The paradox here is that the housing stock in Great Britain is mostly managed by local authorities, while in many other countries it is independent non-profit organizations that control the non-profit rented housing stock. Because Great Britain has a housing stock that is regulated to a considerable extent by the government, it was only there that the policy of the Conservatives had a chance of success.

As noted above, those subscribing to the SHP approach argue that it is important to describe and account for institutional structures in order to provide

a satisfactory explanation of housing market processes. They include here the different financial mechanisms, the development of the construction industry, and the government's land-use policy. Of course, these structures have their origins in past ideological and economic developments.

The approach advocated by Harloe, Ball and Martens is similar in many ways to the corporatist-oriented approach (at least in terms of its methodology, though not in terms of the explanations it offers). The first approach is really more comprehensive, however, while in the second only the interaction between government and the diverse groups involved in the housing market is central and the financial and administrative links between these considered important. These groups are integrated in what can be described as a liberal-corporatist policy system. This system has two important characteristics. Firstly, market organizations work closely together with the government, as a result of which there is a degree of direct control over the market; secondly, these market groups are prepared to take on certain functions in exchange for preserving stability in the market and for financial and administrative support. This system is strengthened by the fact that many policy decisions are made on the basis of negotiations which take place outside parliament between representatives of those involved in the housing market and high-level government officials responsible for deciding policy (an example is the discussions that take place in the Raad voor de Volkshuisvesting (RAVO) (National Advisory Council on Housing) in the Netherlands).

1.5 Policy-oriented approach

As we noted in section 1.2, the policy-oriented approach to analysing the development of housing systems in various countries is an alternative to that offered by traditional convergence theories. This alternative approach is discussed in detail in a paper by Lundqvist (1990). One of its central features is the idea that, in addition to analysing the aims of policy and the policy eventually introduced in different countries, the background to these decisions has to be studied, or rather the differences in their local contexts.

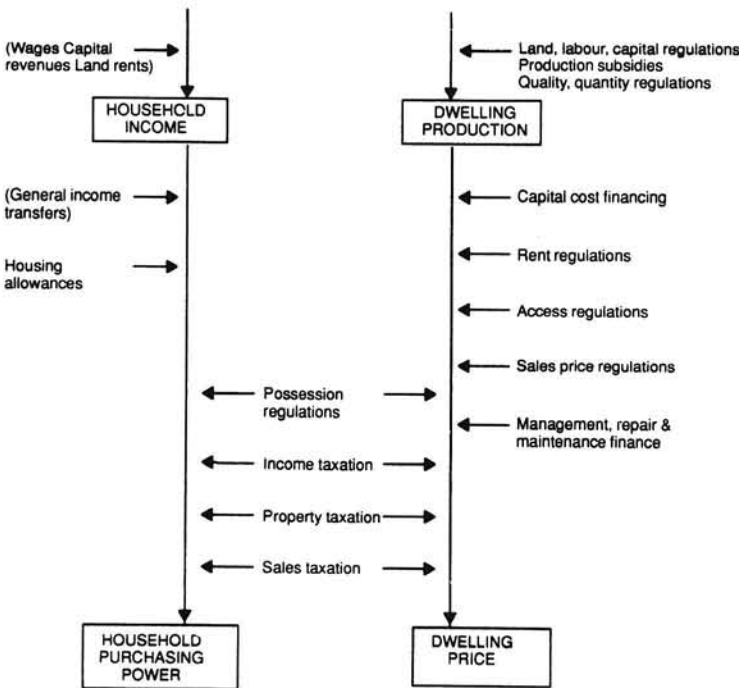
For this purpose Lundqvist suggests (1990: 3) that the housing market can be regarded as a system characterized by a perpetual process of adjusting households and dwellings to each other by the constant interaction between producer supply and consumer demand. The results of this process vary between two extremes: the principle of "housing for everyone according to their needs", and that of "housing on the basis of effective demand". In connection with this, the following two fundamental factors are distinguished: the purchasing power of households, and the cost of housing. This distinction is applicable in every country. It follows then that, in principle, it is possible for governments to take measures to influence both or either of these. So the government can intervene to regulate the quality, the quantity and the price of the factors of production, the level of new housing construction, and the existing housing stock. Further,

the government can influence the way in which households are related to the housing stock: the allocation and the distribution criteria. Of course the government can also intervene by using financial measures. Housing policy can influence the costs of new housing construction and/or the purchasing power of households.

According to Lundqvist's approach, housing policy can be classified according to certain features which are based on analytically distinct categories; these can in turn provide a framework for comparative housing research. Such a division is outlined in Figure 1.1.

The figure indicates the possible courses of action available to governments in housing processes, or, just as importantly, the courses of inaction, whereby the context in which different governments decide their housing policy can serve as a frame of reference. An analysis of the contents of policy options based on this classification is therefore independent of the political characteristics of the government in power and of the policy discussions in vogue in a country at a certain point in time. This division helps one to determine by comparative

Figure 1.1 Possible avenues of government intervention in housing



Source: Lundqvist (1990: 4)

analysis which regulations governments opt for and which they do not, and gives some insight into the way in which they operationalize their policy intentions in practice.

Such analyses of the contents of policy still provide no explanation, however, for the direction of government involvement. These can only be explained in relation to their present context. Lundqvist (1990: 6) notes in this respect that it is important to realize that despite the fact that political actors have a certain autonomy in realizing their political-ideological intentions, they are using their "power resources" in a structural-institutional context which constrains and/or promotes policy choice. The question remains of course what the influence of similar institutions is on the actions of government. Here Lundqvist draws on the "structure of housing provision" discussed in the previous section, or, more generally, the institutional approach. The way in which the provision of housing and housing services is organized can be regarded as the institutional context that is the chief determinant of housing policy. The existing relations, partly institutionalized by the effects of earlier developments in policy and in the market and partly modified in response to developments in the housing sector, determine the parameters within which discussions concerning housing take place.

As we have already mentioned, in different countries specific institutionalized models of housing production and distribution have been developed for the various sectors of the housing market. These structures influence the actions of both individuals and social groups and have a clear influence on possible and actual policy options. This does not mean, though, that policy is primarily determined by interest groups and that politicians can thereby be regarded simply as puppets. Of course, important political movements in a country are able to use the power at their disposal. In fact, there is an underlying balance of power or power game whereby politicians and policy makers, in addition to other factors and participants, determine developments in housing. On the basis of these considerations Lundqvist arrives at the diagram reproduced in Figure 1.2. According to Lundqvist, the above approach has the following advantages. Firstly, research concentrates on housing policy and thereby avoids taking too narrow an approach. Policy is considered to be the most important factor, without this directly accounting for the functioning of the housing system as a whole. Furthermore, the role of institutional factors is put into a firmer theoretical context and, by analysing the power base of political movements, this model links analyses of housing more closely to research into the development of the welfare state being carried out by other disciplines.

It is crucially important that consideration be given to the consequences of any housing policy implemented. In this scheme, policy is regarded as one of the independent variables which account for changes in the housing market. In addition to the influence of housing policy, the influence of other factors is also recognized: market developments, changes in the supply of housing, changes in the socio-economic status of households.

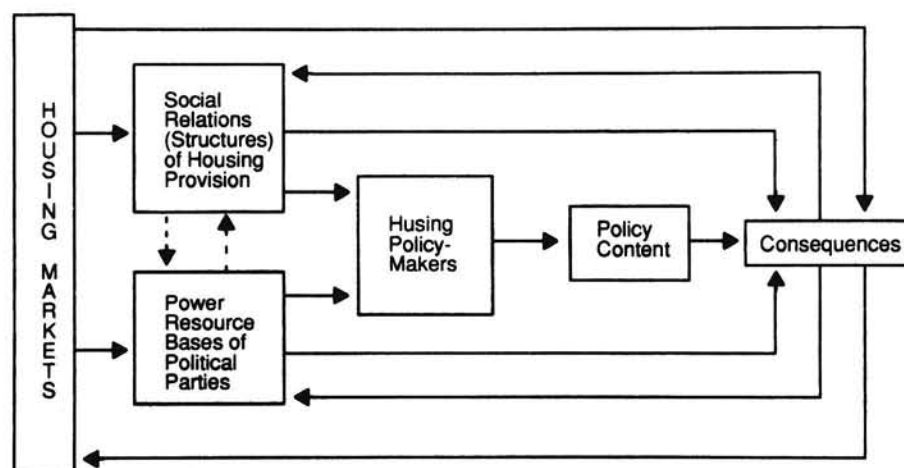
Despite acknowledging the importance of these factors, policy remains a central element in the analyses. It is thereby possible to determine whether policies actually bring about the changes intended, and whether it is possible to implement similar policies in other housing systems. Furthermore, in the policy-oriented approach to housing research, such as that advocated by Lundqvist, it is important that the effects of policy are measured in an intelligible way. It is possible to employ the classifications given in Figure 1.1 for this.

With the more detailed account of the policy-oriented approach presented in 1990, much of the earlier criticism voiced by researchers favouring other approaches was dispelled (Ball et al., 1988; Harloe and Martens 1983; and van Vliet, 1990). These researchers believe that an analysis of housing policy (conceived as a narrowly-formulated set of objectives) and the degree of government involvement in the housing market has little value because the aims of the government are mostly formulated too generally to permit them to be evaluated efficiently, the policies are often unsuccessful, and because often the results of government policies cannot be determined with any degree of accuracy.

Above all, according to these authors, such policy-oriented studies lay too much emphasis on the consumption of housing and housing services, while the, in their view, essential influence of factors of production (and the organization of these factors) is underestimated (see also section 1.4).

Lundqvist suggests that the policy-oriented approach to housing research offers many advantages over other approaches, and particularly the approach in

Figure 1.2 An analytical framework for housing studies, focusing on housing policy



Source: Lundqvist (1990: 7)

which the provision of housing and housing services serves as a general frame of reference (see Harloe and Martens, 1984). Lundqvist claims (1990: 12) that this is also implicitly admitted by Harloe and Martens when they remark that the most important task facing future comparative housing research is the analysis of broad contextual changes and the way in which different countries try to react to these.

1.6 Approaching an international comparative study of housing systems

In the above sections a brief summary has been given of the different methods and approaches employed in international comparative housing research. Given the sometimes extremely vehement polemics that are exchanged between the adherents to these different approaches, both in the literature and at conferences, it would seem at first sight that the differences between these approaches are unbridgeable. In practice though these differences are less significant than might at first be supposed. Further, in recent publications these authors have recognized that each of the methods advocated contains valuable features that sometimes complement each other (see Lundqvist, 1990; and Oxley, 1990). In addition, these different approaches do not pretend to employ a universal explanatory model. They suggest methods and techniques which seem to them best able to provide insight into housing market processes. For an explanation of these developments one usually has to revert to more general explanations, such as those offered by neo-classical, Weberian and neo-Marxist explanatory models.

The analytical techniques employed are largely determined by the ultimate objectives of the project. Oxley (1990: 9) notes in this context that different social-scientific approaches can be used alongside each other, without the one precluding the other. Much depends on the aims of the research. Depending on these, Oxley makes a distinction between discoverers, empiricists, theorists, and scientists. The discoverers describe the different housing systems. Empiricists collect more data and facts and organize this information. Theorists then try to suggest explanations for these observations, while scientists, perhaps using statistical methods and techniques, test the different hypotheses (see the approach of Schmidt). According to Oxley, this last field of activity needs to be developed further.

The objectives of the study are certainly not of minor importance in determining the choice of analytical techniques and method of approach employed in international comparative housing research. In this context Oxley (1990: 6-7) identifies ten aims that are to some extent related to which of the four approaches to research outlined by him one adopts. These are:

- 1) Generally increasing our knowledge and passing this on to others.
- 2) Developing ideas for new policies.

- 3) Collecting material that can be used to reject arguments which are based on narrow perceptions (the idea, for example, that households naturally prefer to be owner-occupiers).
- 4) Collecting material to support a set of pre-held judgements (see, for example, 3).
- 5) Researching the housing system in a broad context in order to understand the system better or to develop ways of making the system work better.
- 6) Determining the relationships between the housing system and other variables (for example, the influence on macroeconomic change).
- 7) Investigating the operation of professional groups in housing other countries (administrators, financial institutions, etc.).
- 8) Examining the theoretical techniques and assumptions employed by housing researchers in other countries (what is counted as a subsidy and what not, for example).
- 9) Obtaining new knowledge and ideas in order to be able to formulate new hypotheses.
- 10) Testing well-defined hypotheses concerning the functioning of housing systems.

In this context Oxley notes that many studies are characterized by a lack of clear aims and methods. This leads to much wasted energy. Many studies limit themselves to saying that they are interested in policy. But apart from this, many researchers shy away from making judgements about policy when formulating their conclusions (Turner and van Weesep (1989) provide evidence to support this claim).

Oxley is a strong supporter of the application in comparative research of techniques employed in the social sciences, such as statistical methods and model building (compare the approach of Schmidt). This means, of course, that the situation will have to be simplified, and not all the statistical material necessary is available (a great deal can still be collected). The great advantage of this approach is that it rejects a purely normative-oriented approach to comparative research. It is, after all, often fairly easy to see certain ideas and aims illustrated somewhere in another country.

In the context of the approach to international comparative housing research described in this chapter, it is now possible to provide further details about the present research project.

Firstly, as we mentioned earlier, the aim of the project is to deepen and increase our knowledge of the functioning of housing systems in seven West-European countries: the Netherlands, Belgium, the Federal Republic of Germany (FRG), Denmark, England, France and Sweden. Housing in the Netherlands will serve as a frame of reference. This study aims to provide a description of the different housing systems and also some insight into the functioning and the effects of the instruments which form part of these systems. The emphasis here is thus on the fifth of the aims distinguished by Oxley. In

addition, the first, second, sixth and seventh are also relevant for this study. The formulation of new hypotheses and the testing of these hypotheses (see the approach of Schmidt) are not among the direct aims of the present study.

Based on the above, we decided to split the project up into a number of smaller-scale studies that would be carried out as separate research projects. This approach also reflected the dominant themes associated with the different approaches to comparative housing research: housing policy in general, administrative and legal aspects, housing finance, housing costs, tax legislation, housing needs, housing quality, land-use policy and housing management. After the project has been concluded, we hope to set up a permanent data bank based on our findings and to broaden the study to include other EC-countries.

Such an approach also makes it possible to draw up a plan for the implementation of the project. This approach led us to divide the project into the following modules:

- a. construction of an explanatory model;
- b. general framework of policy in each country (economic, demographic, administrative and legal aspects, general housing policy and the organization of the housing market);
- c. financial instruments in housing policy;
- d. housing costs;
- e. tax system and owner-occupation;
- f. housing needs;
- g. housing management;
- h. housing quality;
- i. land-use policy;
- j. other EC-countries;
- k. establishment of an information system/Euro-housing data bank

Figure 1.3 The modules and their relationship to each other

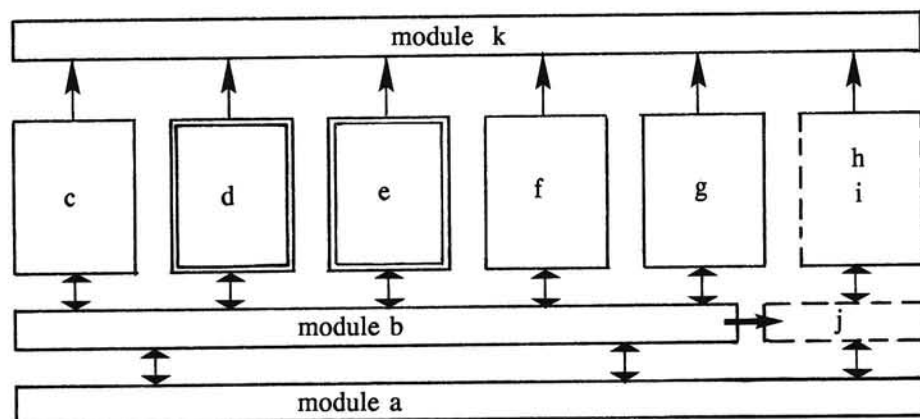


Figure 1.3 illustrates the relationship between these modules. Modules a and b provide the basis for the thematic studies c to j. There is, of course, a degree of interaction between these thematic studies. In discussing housing costs, for example, a link also has to be made with module c, which looks at the financial instruments that form part of housing policy, and vice versa. This is also the case with a number of other themes. The information and data collected during the course of the thematic studies can be stored in an information system or data bank. Time-series data from, for example, 1970 onwards can be stored in this data bank. At the end of the project an analysis of the similarities and differences between housing systems in the different countries can be made and, on the basis of the knowledge gained, an explanation offered for these features.

Work has already started on projects c, d and e. Their findings will be published in 1992.

1.7 The general framework of housing policy

In the first part of the present study we outline the overall policy framework within which the specific studies of, among other things, the administrative and legal aspects of housing, financial instruments in housing policy, housing costs, the tax treatment of owner-occupation, land-use policy, housing requirements and housing quality can be placed. We describe those features which, according to the different approaches described in this chapter, are considered important for the development of housing in different countries. As noted earlier, there are clear differences in the methods of approach and the explanations offered for the differences and similarities in the housing systems in these countries. And yet, despite these differences, there is a reliable degree of consensus concerning the subjects and features that should be included in comparative studies.

All these different approaches recognize the importance of factors outside the direct sphere of housing. It is only in terms of actual interpretation that they differ from one another. According to convergence theories, these factors explain the differences between housing systems, while other approaches regard these factors more as the context within which housing processes take place. In these approaches specific attention is given to the way in which the adaption to changing circumstances takes place. This can occur as the result of government policies (policy-oriented approach) or of the activities of various social groups that can influence the provision of housing and housing services (provision-oriented and institutional approaches). It is therefore first and foremost important to get some insight into the various background variables influencing housing systems. These factors are indicated schematically in Figure 1.4.

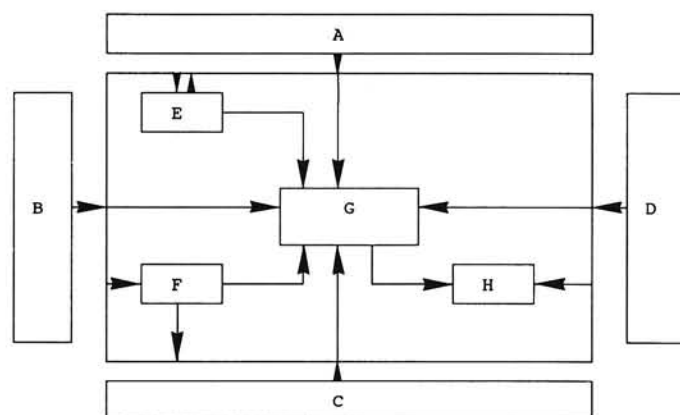
Figure 1.4 identifies four background factors that influence various aspects of the housing system. The first two, the socio-economic and demographic factors, can be presented in a series of summary tables and graphs; this enables one to make a quick and reliable comparison of data from different countries. Because the data have to be mutually comparable and available for a long time period,

we have used the statistics published by international organizations such as the OECD, the World Bank and Eurostat here. In subsequent analyses specific attention is given to the similarities and the differences between the six countries included in the study and the Netherlands, and we also consider to what degree there is convergence or divergence in the development of a number of key variables. These data are analysed further in Chapter 2.

The second part of this study focuses on the housing systems in the seven countries. Particular emphasis is placed on the subjects outlined in Figure 1.4. These include a consideration of past housing policy, the organization of the housing market and those involved in it, as well as of the housing policy envisaged for the 1990s. These interact with four external factors (the socio-economic and demographic factors mentioned earlier, and also administrative, legal, and spatial factors), which in turn determine the objective characteristics of the housing market (though not the housing policy envisaged for the 1990s). These characteristics include such quantitative factors as the size of the housing stock, average household size, level of new construction, the tenure characteristics of households, and housing costs.

Again, in order to make strict comparisons possible when discussing general housing characteristics, we have used only those data available in a form similar

Figure 1.4 Background factors determining the structure of the housing market



- A = socio-economic factors
- B = demographic factors
- C = administrative and legal factors
- D = spatial factors and physical planning systems
- E = organization of the housing market and those involved
- F = past housing policy
- G = objective characteristics of the housing market
- H = housing policy during the 1990s

for all the countries included in the present study. These data are also reproduced in Chapter 2. In subsequent studies into specific aspects of the housing market these data are analysed in greater detail.

In contrast to the first part of this report, chapters 3 to 9 analyse housing in each of the countries separately. In these country chapters we discuss those features of Figure 1.4 which cannot be presented uniformly. These features are administrative and legal factors, spatial factors and systems of physical planning, the organization of the housing market and those involved, the general development of housing policy since the 1970s, and the housing policy envisaged for the 1990s. In the case of the data that can be classified under the first two categories (administrative and legal factors, and spatial factors and systems of physical planning) and which relate to the set of general background variables, only the most essential housing characteristics will be briefly considered.

It is therefore in the country chapters that we consider the organization of the housing market and describe the institutional structure of housing. As argued earlier, many of the differences in housing policies between countries, and in the way the policy intentions of policy makers are developed, can be explained by differences in the way the housing market is organized. So the rent and subsidy policies in different countries can partly be determined by the power and influence of financial institutions and of those organizations representing building contractors. Further, the way in which housing is financed (or at least its organization) can vary considerably from country to country. Because the direct involvement of the government is most extensive in the non-profit rented sector, it is to this that most attention will be given in the country chapters.

It is certainly not our intention here to give an exhaustive account of the development of housing policy since the 1970s. The emphasis will be on the underlying aims of housing policy and an explanation will be given of the most important policy options, of, for instance, the choice between supply and demand subsidies and the encouragement given to certain sectors of the housing market and the constraints imposed on others. Of course, in this context we shall also discuss the relationship with general ideological developments in the various countries and the way in which the welfare state has developed. According to both the policy-oriented (Lundqvist, 1990) and the institutional approaches, these partly explain the aims of housing policy. Our analyses will not be confined to offering a general description of the intentions of governments. The contextual changes and the success of the measures introduced by governments will also be considered in the country chapters (by, among other things, relating them to the findings presented in Chapter 2) (see also the policy-oriented approach discussed in section 1.5). The subjects covered in the country chapters will therefore not necessarily be the same.

In describing current housing policy, reference will be made to the findings discussed in Chapter 2. In this context we shall also consider the most important housing policy issues in the different countries.

In the case of the general development of housing policy since the 1970s and the housing policy envisaged for the 1990s, it should be emphasized that it is not our intention to give an exhaustive account of the instruments associated with different aspects of housing policy. Such an account is provided in the separate studies of the role of financial instruments in housing policy, housing expenditure, policies relating to the housing stock, etc. We do explain, though, the reasons why particular choices are made, and consider their underlying relationship to policy intentions, both within and outside the sphere of housing.

Our study of the general policy framework of the housing systems of the seven countries included in this report concludes with a summary of the most important similarities and differences between these countries.



2.1 Introduction

This chapter discusses a number of demographic and economic factors in the seven countries selected for this study. In addition to the administrative, legal and spatial factors discussed in Chapter 1, these demographic and economic factors constitute the background variables that determine the structure of the housing market in each of these seven countries. Unlike in the case of the administrative, legal and spatial characteristics, comparable data are available on demographic and economic conditions in these countries. In addition, data on the characteristics of the housing stock and on the level and type of new housing construction in each of the countries can be compared.

In order to produce consistent data series, use has been made as much as possible of international statistical sources, such as Eurostat, the United Nations (*Annual Bulletin of Housing and Building Statistics for Europe*) and the OECD (*National Accounts*). Where this was not possible, specific sources from the different countries have been consulted. Because the data presented in most series of international statistics refer to the United Kingdom and not to England, the data given in this chapter are not always comparable with those given in Chapter 7.

This chapter aims to indicate the similarities and differences between demographic and economic conditions within the seven countries, and in the housing stock and level and type of new housing construction. We indicate, wherever possible, to what extent these various characteristics are tending to converge or diverge. An explanation for the changes that have occurred over time, and for the similarities and differences observed between the countries concerned, is given in the specific chapters devoted to each of the different countries, or in one of the other study reports being published as part of this research project.

2.2 Demographic developments

2.2.1 Introduction

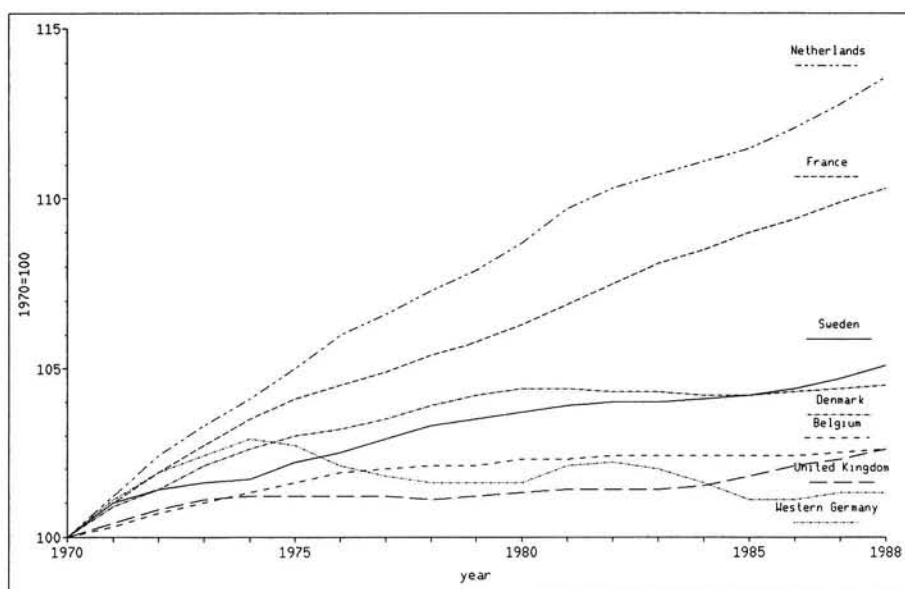
Demographic developments in a country determine to an extent both the size and the type of housing needed. The number of houses required is, of course, a reflection of population size and the number of households, whereas the type of housing required is mainly determined by household size and the age composition of the population. The following sections examine changes in population size since 1970, the number and size of households, and in the age composition of the population in the seven countries.

2.2.2 Population since 1970

Figure 2.1 illustrates the change in population size between 1970 and 1988 for each of the seven countries. The population of the Netherlands and, to a lesser extent, of France showed a continuous and relatively rapid growth during this period, increasing 13.6% and 10.3% respectively. In both countries the level of natural population growth was significant, and there was also a slight level of net immigration.

The population of Sweden and Denmark grew by 5.1% and 4.5% respectively between 1970 and 1988. Whereas Sweden had natural population growth

Figure 2.1 Changes in population size, 1970-88, as at 1 January (%) (1970 = 100)



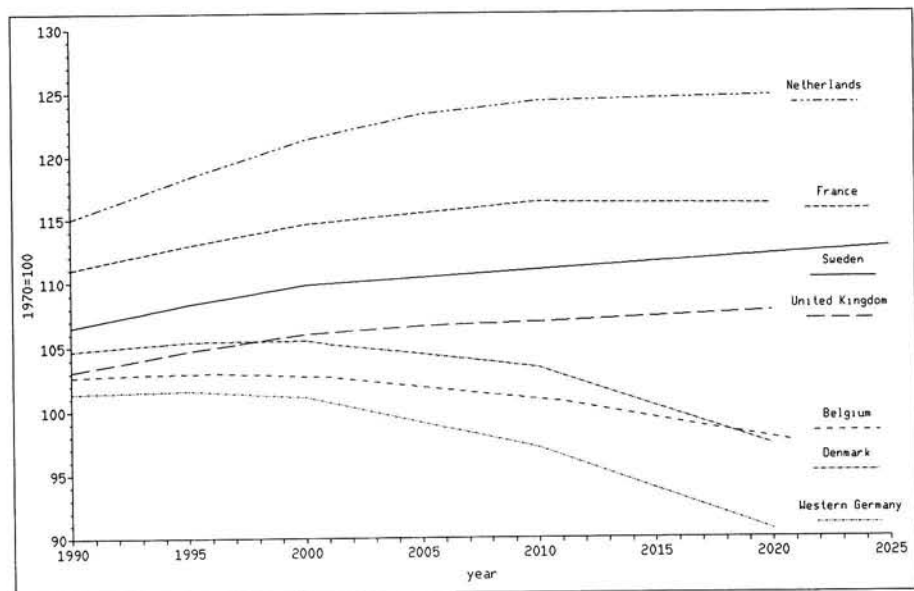
Source: Eurostat (1989), SCB (1989)

throughout that period, in Denmark the number of deaths exceeded the number of births from 1981 onwards. The small increase in population in Denmark from 1985 onwards was the result of net immigration. The populations of Belgium, the United Kingdom and the FRG have increased least. After 1980 the population in Belgium was rather stable; births exceeded deaths to a slight degree, while the number of emigrants was somewhat greater than the number of immigrants. In the United Kingdom, too, the population remained relatively stable for much of the period; after 1983, however, the population increased as a result of an increase in the birth rate and net immigration. Finally, in the FRG the death rate has exceeded the birth rate since 1972. As a result of changes in net migration rates, the size of the population has fluctuated.

Figure 2.2 illustrates projected populations up to the year 2020. It is expected that populations will increase in the Netherlands, France, Sweden and the United Kingdom until after the turn of century, whereas it is likely that Denmark, the FRG and Belgium will experience population decline from at least 1995.

Further, the unexpectedly rapid reunification of the FRG and the GDR in October 1990 and the increasing number of ethnic Germans moving to the new Germany from the East have meant that population projections have had to be revised considerably. It has been estimated that around 400,000 so-called *Aussiedler* moved to the FRG in 1990 alone. Under the German constitution all

Figure 2.2 Projected changes in population size, 1990-2020 (%) (1970=100)



Source: Eurostat (1989), SCB (1989)

Aussiedler have the right to live in the FRG, and it is possible that, in the future, large numbers will migrate to the FRG from Eastern Europe and the Soviet Union. The precise level of growth and the degree to which these demographic changes will be permanent are difficult to estimate; the part played by such factors as return migration, for example, is almost impossible to gauge.

In all the countries included in this study the birth rate declined on average during the period 1970-88. This decrease was caused, among other things, by an increase in the proportion of women in employment (leading them to delay starting a family) and by the fact that women tended to have fewer children. In a number of countries (Sweden, the United Kingdom, Denmark, the FRG and, to a lesser extent, the Netherlands) the birth rate has increased in the last few years, largely as a result of families having the children delayed in previous years. The fall in the birth rate combined with increasing life expectancies has led to an ageing of the population in all seven countries. We shall discuss this in more detail in section 2.2.4.

2.2.3 Households

The most important factor determining housing needs is the number of households. Table 2.1 provides data for each of the seven countries on the number of households in 1970 and 1987.

The number of households in the Netherlands increased rapidly in comparison with other countries; between 1970 and 1987 the number of households increased by 48.7%. The increase in the number of households in Sweden and Belgium was relatively small. No data are yet available for the period 1985-87 in Belgium; between 1970 and 1984, however, the number of households increased by 15.6%. In general, there is a close relationship between the size of the

Table 2.1 Number of households 1970-87 (in millions)

	1970	1987	% change
Netherlands	3.9 ²	5.8	48.7
FRG	22.0	27.0	22.7
France	16.2	20.9	29.0
Belgium	3.2	3.7 ¹	15.6
United Kingdom	18.6	22.8	22.6
Denmark	1.8	2.2	22.2
Sweden	3.3 ³	3.7 ⁴	12.1

¹ 1984 ² 1971 ³ 1975 ⁴ 1985

Sources: Belgium: NIH (1987)
 Netherlands: CBS, Statistisch Jaarboek, various years
 United Kingdom: NEI (1989)
 FRG: Statistisches Bundesamt (1989)
 Sweden: NEI (1989), SCB (1989)
 Denmark: NEI (1989)
 France: INSEE (1989)

Table 2.2 Average household size, 1970-87

	1970	1987	% change
Netherlands	3.2 ²	2.5	-21.9
FRG	2.7	2.4	-11.1
France	3.1	2.7	-12.9
Belgium	3.0	2.7 ¹	-10.0
United Kingdom	2.9	2.5	-13.8
Denmark	2.7	2.3	-14.8
Sweden	2.5 ³	2.3 ⁴	-8.0

¹ 1984 ² 1971 ³ 1975 ⁴ 1985

Sources: Belgium: NIH (1987)
 Netherlands: CBS, Statistisch Jaarboek, various years
 United Kingdom: NEI (1989)
 FRG: Statistisches Bundesamt (1989)
 Sweden: NEI (1989), SCB (1989)
 Denmark: NEI (1989)
 France: INSEE (1989)

population and the number of households, and an increase in the size of the population will lead to an increase in the number of households. During the period 1970-87, however, the number of households increased to a greater

Table 2.3 Distribution of households according to household size (%)

		1	2	3	4	≥5
Netherlands	1971	17	25	18	19	20
	1985	28	29	15	19	9
FRG	1970	25	27	20	15	13
	1987	33	28	18	14	7
France	1968	22	28	19		31
	1982	25	29	19	16	11
Belgium	1970	19	30	20		31
	1981	23	30	20	16	11
UK	1970	18	31	19		32
	1985	24	33	17	17	8
Denmark	1970	24	30	18	17	11
	1987	33	32	15	14	6
Sweden	1975	30	31	17	15	7
	1985	36	31	14	13	6

Sources: NEI (1989), CBS, several years; Statistisches Bundesamt (1989), SCB (1989), UN (1988)

extent than the population in all the countries included in this study.

The decrease in average household size during the period 1970 to 1987 was greatest in the Netherlands (21.9%). The process of individualization began somewhat later in the Netherlands than other countries, but it has proceeded more rapidly. A similar picture emerges from Table 2.3, which illustrates the distribution of households by size. Because data are not available for all countries for this period, the percentages given in the table are not strictly comparable. It is clear, however, that the proportion of small households has increased, and the proportion of large households has decreased. Here, too, the changes in the Netherlands have been relatively significant during recent decades. The proportion of households of size one or two increased from 42% to 57% during the period 1971-85, while the proportion of households containing five or more persons fell from 20% to 9%. Small households are most

Table 2.4 Age distribution of the population, 1970-2000

Country	Age group	1970	1980	1987	1990	2000
Netherlands	0-19	35	31 ³	27	26	25
	20-64	54	57 ³	61	61	61
	≥65	10	12 ³	12	13	14
FRG	0-19	32	27	22	20	20
	20-64	57	58	63	64	63
	≥65	11	15	15	16	17
France	0-19	32 ⁵	30	28	28	26
	20-64	55 ⁵	56	59	58	58
	≥65	13 ⁵	14	13	14	16
Belgium	0-19	32	28	26	25 ¹	24 ²
	20-64	57	58	60	60 ¹	59 ²
	≥65	11	14	14	15 ¹	17 ²
United Kingdom	0-19	31 ⁴	29	26	26	26
	20-64	56 ⁴	56	58	58	58
	≥65	13 ⁴	15	16	16	16
Denmark	0-19	32	29	25	24	23
	20-64	56	57	60	60	63
	≥65	12	14	15	16	15
Sweden	0-19	-	26	25	24	24
	20-64	-	57	57	58	59
	≥65	-	17	18	18	17

¹ 1991 ² 2001 ³ 1981 ⁴ 1971 ⁵ 1975

Sources: NEI (1989), CBS, *Statistisch Jaarboek* several years, Statistisches Bundesamt (1989), SCB (1989), Eurostat (1989)

predominant in Denmark and Sweden, where the proportion of one- and two-person households is 65% and 67% respectively.

2.2.4 The age composition of the population

One cause of the growth in the proportion of small households is the increasing ageing of the population. Table 2.4 clearly illustrates that the population in each of the seven countries has aged over the last two decades and that it will probably continue to do so until at least the year 2000. In all the countries (with the exception of France) the proportion of people aged sixty-five and over has increased. In comparison with the other countries in this study, the ageing of the population has been least rapid in the Netherlands.

The proportion of those in younger age groups has decreased because of a decrease in the number of births and a rise in average life expectancy. The decrease during the period 1970-87 in the proportion of those aged under twenty was particularly marked in the FRG, the Netherlands and in Denmark. As a result of the post-war baby boom, in most countries (Sweden being the exception) the proportion of the population aged between twenty and sixty-four increased during the same period.

In most countries the proportion of the young in the population is expected to decrease in the forthcoming decades. In the case of the FRG, Sweden and the United Kingdom it is expected that the proportion of the young will be stable. In Belgium, the Netherlands, France and the FRG the ageing of the population will continue to increase until the year 2000. Other countries expect the proportion of the elderly to stabilize (United Kingdom) or decrease slightly (Sweden and Denmark). After the year 2010 the proportion of the elderly will rise in most countries: the post-war baby boom generation will then be reaching the age of sixty-five.

2.3 Economic developments

2.3.1 Introduction

This section looks at Gross Domestic Product (GDP) in each of the seven countries, unemployment, housing investment (as a proportion of GDP) and changes in housing costs.

2.3.2 Gross Domestic Product

The Gross Domestic Product is frequently used as an indicator of economic development. Table 2.5 illustrates the change in GDP between 1970 and 1988. The growth in GDP between 1970 and 1988 was most significant in France and Belgium. In Sweden and Denmark, however, the growth in GDP was relatively slight. GDP grew little in the United Kingdom up to 1986; after 1986 growth was more rapid. The growth in GDP in the Netherlands and the FRG over the period 1970-88 was similar; up to 1975 growth in GDP in the Netherlands was particularly rapid compared with that in the FRG, while after 1975 growth was

greater in the FRG than in the Netherlands.

2.3.3 Per capita GDP

Table 2.6 illustrates the change in per capita GDP during the period 1970-88 in the seven countries. The differences between the countries are considerable; per capita GDP increased by 775% in the United Kingdom and by more than 208% in the FRG. When changes in per capita GDP in constant prices are analysed, however, the differences between the countries appear to be less considerable (see Table 2.7). The real increase in per capita GDP during the period 1970-88 was greatest in Belgium and the FRG, followed by the United Kingdom and France. It was lowest in the Netherlands, where real growth in per capita GDP was 30.5%. In all the countries (with the exception of Denmark) per capita GDP has increased in real terms in every successive year since 1985. The relatively large increase in population in the Netherlands and in France (see Figure 2.1) has led to a considerable difference between the level of growth in GDP (see Table 2.5) and the growth in per capita GDP.

In Table 2.8 the year-on changes in real per capita GDP are presented for the period 1979-88. It appears that all countries (with the exception of France) had declining real per capita GDP at the beginning of the 1980s on account of economic recession. Further, as noted earlier, real per capita GDP declined

Table 2.6 Per capita GDP at current prices, 1975-88 (1970=100)

	1975	1980	1985	1986	1987	1988
Netherlands	173.1	255.7	309.6	315.8	315.8	328.2
FRG	148.0	215.5	268.1	283.1	293.3	308.6
France	177.7	332.6	543.5	582.1	608.1	646.2
Belgium	176.9	267.4	366.3	385.3	400.7	425.6
United Kingdom	202.0	441.9	675.7	721.6	790.5	875.0
Denmark	177.1	301.5	497.5	536.3	558.7	583.1
Sweden	171.0	296.1	483.1	527.1	567.1	616.4

Source: OECD (1990)

Table 2.7 Per capita GDP at 1985 prices, 1975-88 (1970=100)

	1975	1980	1985	1986	1987	1988
Netherlands	111.5	122.5	125.5	127.4	128.0	130.5
FRG	107.9	128.6	136.8	140.1	142.4	147.6
France	114.0	130.1	137.0	139.6	141.6	146.0
Belgium	116.6	134.6	139.7	141.9	144.4	150.6
United Kingdom	109.0	119.2	130.7	134.9	140.9	146.3
Denmark	107.0	119.5	136.4	140.5	139.3	138.6
Sweden	111.2	117.7	128.2	130.9	134.4	136.9

Source: OECD (1990)

Table 2.8 Per capita GDP: volume changes compared with previous year, 1979-88

	1980	1981	1982	1983	1984	1985	1986	1987	1988	ave. 79-88
Netherlands	0.1	-1.3	-1.9	1.0	2.7	2.1	1.4	0.4	2.1	0.7
FRG	1.0	0.0	-0.6	1.9	3.2	2.2	2.3	1.8	3.2	1.7
France	1.1	0.6	2.0	0.2	0.9	1.5	1.9	1.5	3.1	1.4
Belgium	4.2	-1.1	1.5	0.4	2.1	0.8	1.6	1.8	4.1	1.7
United Kingdom	-2.4	-1.4	1.8	3.5	1.9	3.4	3.2	4.4	3.8	2.0
Denmark	-0.6	-0.8	3.1	2.6	4.4	4.2	2.9	-0.9	-0.6	1.6
Sweden	2.1	-0.1	1.1	1.8	3.9	2.1	2.0	2.6	1.9	1.9

Source: OECD (1990)

Table 2.9 Unemployed¹ as a percentage of the labour force, 1970-88

	1970	1975	1980	1985	1986	1987	1988
Netherlands	1.0	5.2	6.0	10.6	9.9	9.6	9.5
FRG	0.8	3.6	3.0	7.2	6.4	6.2	6.2
France	2.5	4.0	6.3	10.2	10.4	10.5	10.3
Belgium	2.1	5.0	8.8	11.3	11.2	11.1	10.2
United Kingdom	3.0	4.3	6.4	11.2	11.2	10.3	8.3
Denmark	1.3	5.3	7.0	9.0	7.8	7.8	8.6
Sweden	1.5	1.6	2.0	2.8	2.7	1.9	1.6

¹ Unemployment according to ILO definition

Sources: OECD (1989a), OECD (1989b)

in Denmark between 1986 and 1988. The increase in the United Kingdom has been relatively marked since 1985, while that in the Netherlands was slight when compared with the increase in other countries.

Since the mid-1980s the volume increase in GDP has coincided with a decrease in unemployment in most countries (see Table 2.9). The fall in unemployment in the United Kingdom during the period 1985-88 is particularly striking. Unemployment in Belgium, France and the Netherlands was relatively high, whereas in Sweden and Denmark unemployment was relatively low.

2.3.4 Housing investment

In Table 2.10 investment in housing as a percentage of GDP is given for the period 1970-87. We include here not only investment in new housing, but also in the large-scale redevelopment of existing housing. The proportion of GDP devoted to housing has varied between countries and over time. Between 1970 and 1980 it rose in Belgium and the Netherlands and fell in Denmark. In all countries the proportion of GDP devoted to housing investment declined in the period 1980-85. This decrease was relatively marked in Belgium and (to a lesser degree) France. Since 1985 investment in housing has increased somewhat in Belgium, the Netherlands and the United Kingdom. It has continued to fall,

Table 2.10 Housing investment as a percentage of GDP at market prices, 1970-87

	1970	1975	1980	1985	1986	1987
Netherlands	5.3	5.3	6.2	4.9	5.0	5.2
FRG	6.7	5.8	6.8	5.6	5.3	5.2
France	6.7	8.4	7.4	5.5	5.2	5.2
Belgium	5.6	6.3	6.4	3.1	3.2	3.4
United Kingdom	3.2	4.4	3.8	3.4	3.6	3.7
Denmark	8.0	6.7	5.3	4.3	5.0	4.5
Sweden	5.6	4.0	4.7	4.1	3.8	4.3

Sources: OECD (1989a), OECD (1989b)

Table 2.11 Housing costs as a percentage of total household expenditure, based on current prices, 1975-87

	1975	1980	1985	1986	1987
Netherlands	13.9	15.9	19.4	19.0	18.0
FRG	17.4	18.8	21.9	21.1	20.6
France	15.8	17.5	19.1	18.8	18.9
Belgium	15.4	16.4	18.7	17.5	17.1
United Kingdom	18.3	18.8	20.7	20.4	-
Denmark	22.8	27.0	25.4	25.2	26.6
Sweden	21.7	25.0	26.4	25.6	25.2

Source: OECD, (1989c)

however, in the FRG and France. In spite of this fall the proportion of GDP devoted to housing investment in 1987 was highest in the FRG and France, along with the Netherlands. Housing investment in the United Kingdom and Belgium was relatively low at 3.7% and 3.4% respectively.

2.3.5 Housing costs

Table 2.11 illustrates how the proportion of total household expenditure accounted for by housing costs (including rents, or the level of imputed rents in the case of owner-occupiers, and energy costs) has varied since 1975. The figures are not strictly comparable since the method of calculating housing costs varies between countries. There are differences, for example, in the method of calculating the level of rent and the level of imputed rents. In Sweden, for instance, rents include an element to cover the cost of major household appliances such as washing machines, fridges and radiators, and in Denmark there are many second homes that force up rentable values. More importantly, there are differences between countries in the way household expenditure is calculated in the national accounts. In particular, the relationship between the government and the private sector in the pattern of expenditure can vary greatly by country and is dependent on the way in which society is organized. As a result the expenditure of households in Belgium and the Netherlands as a proportion of GDP is greater than in Sweden and Denmark, for example, and the proportion of total household expenditure accounted for by housing is relatively low in Belgium and the Netherlands. These differences in the method of calculating the proportion of total household expenditure accounted for by housing make international comparisons difficult. Comparisons over time are possible, however, since there has been a greater degree of consistency in the way housing costs have been calculated within countries over time. In a separate study of housing costs this question will be analysed further (Menkveld, 1991).

In all the countries the proportion of expenditure on housing increased during the period 1975-87. The increase was greatest in the Netherlands at 4.1%, and also significant in Sweden (3.5%) and Denmark (3.8%). In most countries the proportion of housing expenditure decreased after 1985. Only in Denmark did it

Table 2.12 Expenditure on rent (or imputed rents) as a proportion of total household expenditure, based on current prices, 1975-87

	1975	1980	1985	1986	1987
Netherlands	9.9	10.7	13.0	13.3	13.6
FRG	13.0	13.5	15.6	15.8	15.8
France	11.6	12.3	13.5	13.9	14.4
Belgium	-	-	-	-	-
United Kingdom	13.7	14.1	15.5	15.4	-
Denmark	17.0	19.0	18.9	18.8	19.7
Sweden	18.0	19.3	20.3	20.3	20.1

Source: OECD (1989c)

increase between 1985 and 1987.

Tables 2.12 and 2.13 present data on expenditure on rent (or the value of imputed rents) and energy.

In the case of rents and imputed rents (see Table 2.12) there was a continuous rise in expenditure in most countries during the period 1975-87. Expenditure fell somewhat after 1985 in Sweden and the United Kingdom, while in Denmark, after an initial decline until 1986, the proportion of household expenditure devoted to rents (or imputed rents) increased significantly between 1986 and 1987.

The change in the proportion of total household expenditure accounted for by energy costs in Denmark was similar to that of expenditure on rent and imputed rents (see Table 2.13); after a decrease up to 1986 there has been a slight increase during the last few years. In all other countries the importance of energy costs has declined since the mid-1980s. In the case of the FRG, the Netherlands and France this decline has resulted in an overall decline in housing costs as a proportion of total household expenditure, in spite of an increasing proportion being spent on rent and an increase in the level of imputed rents.

Table 2.13 Expenditure on energy as a proportion of total household expenditure, based on current prices, 1975-87

	1975	1980	1985	1986	1987
Netherlands	4.0	5.1	6.4	5.7	4.4
FRG	4.3	5.3	6.3	5.3	4.8
France	4.1	5.2	5.6	4.9	4.5
Belgium	-	-	-	-	-
United Kingdom	4.5	4.7	5.1	4.9	-
Denmark	5.8	8.0	6.4	6.5	6.9
Sweden	3.7	5.7	6.0	5.4	5.1

Source: OECD (1989c)

2.4 Housing stock and new housing construction

2.4.1 Introduction

The following sections look at the size of the housing stock and the level of new housing construction between 1970 and 1987. We shall also consider the number of dwellings withdrawn from the housing stock and the housing density. Data will be presented on a number of characteristics of the housing stock (size of the owner-occupied sector and the year of construction), and of new housing construction (average number of rooms, proportion of new dwellings built as single-family housing).

2.4.2 The housing stock and new housing construction

Table 2.14 illustrates the level of the housing stock in each of the seven countries between 1970 and 1987. It also indicates the growth in the housing stock between 1970 and 1985, the last year for which statistics are available for all seven countries. The housing stock in the Netherlands increased more in size than that of any other country in this period.

In France too the housing stock grew rapidly between, in this case, 1968 and 1985. The growth of the housing stock has been lowest in Belgium and the United Kingdom.

Tables 2.15 and 2.16 relate the number of houses to the geographical size of the different countries and to the size of their populations. It appears from Table 2.15 that the housing density is greatest in the smallest countries, the Netherlands and Belgium. The number of dwellings per square kilometre is relatively low in Sweden, Denmark and France. In 1970 the number of dwellings per thousand inhabitants (see Table 2.16) was highest by far in Sweden at 394. The corresponding figure for the Netherlands was 289. The average number of inhabitants per dwelling was 3.5 in the Netherlands compared with 2.5 in Sweden.

Table 2.14 Housing stock, end of year figures, 1970-87 ('000s)

	1970	1975	1980	1985	1986	1987	% growth 1970-85
Netherlands	3 786.5	4 388.0	4 848.7	5 384.1	5 483.0	5 589.2	42.2
FRG	20 807.0	23 620.8	25 406.0	27 081.0	27 317.6	-	30.2
Belgium	3 434.9	3 882.5	3 810.7	3 997.1	-	-	16.4
France	18 263.0 ²	21 075.0	24 264.0 ³	24 758.0	24 988.0	-	35.6
United Kingdom	19 203.0	20 347.0	21 527.0	22 414.6	22 611.7	-	16.7
Denmark	1 743.0	2 018.7 ¹	2 161.9	2 260.0	2 288.5	2 299.4	29.7
Sweden	3 181.0	3 529.8	3 700.0 ⁴	3 863.4 ⁵	-	-	21.5

¹ 1976 ² 1968 ³ 1983 ⁴ NEI (1989) ⁵ SCB (1989)

Sources: United Nations, *Annual Bulletin of Housing and Building Statistics for Europe*, several years

Table 2.15 Number of dwellings per square kilometre, 1970 and 1985

	1970	1985	size of country (⁰⁰⁰ sq km)
Netherlands	92.4	131.3	41
FRG	83.6	108.8	249
France	38.5 ¹	45.3	547
Belgium	110.8	128.8	31
United Kingdom	78.7	91.9	244
Denmark	40.5	52.6	43
Sweden	7.1	8.6	450

¹ 1975

Source: United Nations, *Annual Bulletin of Housing and Building Statistics for Europe*, several years

The differences between the number of houses per thousand population in the seven countries decreased during the period 1970-85. While in 1985 Sweden still had the most dwellings per thousand population (452) and the Netherlands continued to have the lowest number of dwellings per thousand population (372), the difference between the two countries declined during the period 1970-85 from 105 to 80 dwellings per thousand inhabitants. By 1985 France, the FRG and Denmark had almost as many dwellings per thousand population as Sweden, with 449, 443 and 439 respectively. Growth has been largest in the FRG and the Netherlands, and least in Sweden, the United Kingdom and Belgium.

The housing stock in the Netherlands increased by 42.2% during the period 1970-85 (see Table 2.14), while in the FRG the corresponding increase during the same period was more than 30%. The increase in the number of dwellings per thousand inhabitants was less in the Netherlands than in the FRG on account of higher rate of population growth in the Netherlands (see Figure 2.1).

Table 2.16 Number of dwellings per '000 population, 1970-87

	1970	1975	1980	1985	1986	1987	% growth 1970-85
Netherlands	289	320	343	372	377	381	28.7
FRG	341	383	413	443	448	-	29.9
France	366 ²	399	436	449	451	-	22.7
Belgium	355	-	387	405	-	406	14.1
United Kingdom	346	364	383	396	399	-	14.5
Denmark	353	397 ¹	422	439	445	448	24.4
Sweden	394	427 ³	446 ³	452 ³	-	-	14.7

¹ 1976 ² 1968 ³ NEI (1989)

Sources: United Nations, *Annual Bulletin of Housing and Building Statistics for Europe*, several years

Table 2.17 Housing completions, 1970-87 ('000s)

	1970	1975	1980	1985	1986	1987
Netherlands	118.0	121.9	117.3 ¹	101.1	108.9	115.7
FRG	478.0	436.8	389.0	312.1	251.9	-
France	471.5	514.3	378.4	343.6 ²	295.0	-
Belgium ³	45.9	80.3	48.6	30.3	25.9	30.7
United Kingdom	368.2	332.4	252.1	213.5	217.1	-
Denmark	50.6	35.5	30.3	22.6	28.5	26.9
Sweden	109.8	74.5	51.4	32.9	28.8	30.9

¹ 1981 ² 1984 ³ Housing starts

Source: United Nations, *Annual Bulletin of Housing and Building Statistics for Europe*, several years

The small increase in the per capita housing stock in Belgium and the United Kingdom was the result of relatively low growth in the housing stock at a timewhen population growth was also slight. In Sweden the increase in the per capita housing stock was similar to that in Belgium and the United Kingdom, but both the increase in the housing stock and the growth in population were greater.

The increase in the housing stock is determined by the number of new dwellings completed and the number of dwellings withdrawn from the housing stock.

Tables 2.17 and 2.18 present some figures on new housing completions. Table 2.19 illustrates the number of dwellings withdrawn from the housing stock between 1970 and 1987.

It appears from Table 2.17 that the number of housing completions decreased during the period 1970-85 in Denmark, the FRG, Sweden and the United Kingdom. This decrease was particularly marked in Sweden and Denmark. In Belgium, France and the Netherlands the number of dwellings completed in 1975 was greater than the number completed in 1970; after 1975, however, the number of completions began to decline in these countries too. The number of dwellings completed increased in a number of countries after 1985 (in Denmark, the Netherlands, the United Kingdom) or 1986 (Belgium, Sweden). The annual level of new housing construction was more stable in the Netherlands than in other countries during the period 1970-87.

Table 2.18 shows that in 1970 the number of houses completed per thousand inhabitants was highest in Sweden and Denmark. From around 1980 onwards it was highest in the Netherlands. In all the countries included in this study, with the exception of the Netherlands, the number of housing completions per capita fell markedly during the period 1970-87. The relatively high level of new housing construction in the Netherlands is in part a result of attempts to ameliorate the housing shortage.

An indication of the extent of the housing shortage can be given by comparing the number of households with the number of dwellings in the housing stock. With the exception of the Netherlands and the United Kingdom,

Table 2.18 Housing completions per '000 inhabitants, 1970-87

	1970	1975	1980	1985	1986	1987
Netherlands	9.1	9.0	8.2	7.0	7.5	7.9
FRG	7.9	7.0	6.3	5.1	4.1	-
France	9.3	9.8	7.0	6.3 ¹	5.3	-
Belgium ²	4.8	8.2	4.9	3.1	2.6	3.1
United Kingdom	6.6	5.9	4.5	3.8	3.8	-
Denmark	10.3	7.0	5.9	4.4	5.6	5.2
Sweden	13.7	9.1	6.2	3.9	3.4	3.7

¹ 1984 ² Housing startsSource: United Nations, *Annual Bulletin of Housing and Building Statistics for Europe*, several years

the number of dwellings (table 2.14) was higher than the number of households (table 2.1) in all countries. Measured in this way, one can conclude that the housing shortage was greater in the Netherlands than in the United Kingdom; furthermore, it is expected that the population in the Netherlands will grow morerapidly than in the United Kingdom in the future.

In calculating the level of the housing stock account also has to be taken of withdrawals from the housing stock. We include here both the number of houses demolished and cases where properties used for housing have acquired a different function. Table 2.19 illustrates the fact that in a number of countries (the Netherlands, Sweden, the United Kingdom) the number of withdrawals from the housing stock decreased after 1970, whereas in other countries (Belgium, Denmark, the FRG) the number increased between 1970 and 1987. Two remarkable features are the sharp fall in the number of housing withdrawals in the United Kingdom during the period 1970-86 and the more than 27,000 withdrawals in Belgium in 1980.

Table 2.19 Withdrawals from the housing stock, 1970-87 ('000s)

	1970	1975	1980	1985	1986	1987
Netherlands	18.6	15.0	13.9 ²	10.1	12.0	12.0
FRG	44.1	54.2	86.9	88.0	88.2	-
France	-	-	72.0 ⁴	70.0 ¹	65.0	-
Belgium	3.9	3.8	27.2	8.2 ¹	-	-
United Kingdom	115.0	82.0	45.0	22.1	20.0	-
Denmark	5.3	6.0	8.0	8.0	-	-
Sweden ³	10.4	5.5	2.1	-	-	-

¹ 1984 ² 1981 ⁴ 1983³ Only includes withdrawals of multi-family housing from the housing stock (some 20% to 25% of total withdrawals)Source: United Nations, *Annual Bulletin of Housing and Building Statistics for Europe*, several years

Table 2.20 Owner-occupied sector as a percentage of the total housing stock, 1970-88

	1970	1975	1980	1985	1986	1987	1988
Netherlands	35	39	42	43	42	43	44
FRG	36	-	38	-	42	42	-
France	45	46 ⁴	47 ³	51 ²	-	-	-
Belgium	55	61 ¹	61 ⁵	-	-	-	-
United Kingdom	49	-	55	62	63	64	65
Denmark	47	-	55	55	-	55	55
Sweden	35	39	40	40	-	-	43

¹ 1977 ² 1984 ³ 1979 ⁴ 1973 ⁵ 1981

Sources: Netherlands: CBS, *Statistisch Jaarboek*, several years
 FRG: NEI (1989)
 France: EIT (1985), United Nations (1988), Taffin (1991)
 Belgium: EIT (1985), NIH (1987)
 United Kingdom: DOE (1987), DOE (1989)
 Denmark: Danmarks Statistik (1989)
 Sweden: WIT (1985), NEI (1989), Ministry of Housing and Physical Planning (1988)

2.4.3 Characteristics of the housing stock

For those years for which data are available, Table 2.20 shows the size of the owner-occupied sector during the period 1970-88. The rest of the housing stock is not necessarily rented housing; in some countries (for instance France and Belgium) there is, in addition to rented and owner-occupied housing, a category of housing for which occupants pay no rent, while in other countries housing tenure is sometimes described as "unknown" or "miscellaneous".

The size of the owner-occupied sector as a proportion of the housing market has increased in all seven countries since 1970. The owner-occupied sector is relatively large in Belgium, Denmark and the United Kingdom, and small in the FRG, Sweden and the Netherlands. The size of the owner-occupied sector increased sharply in Belgium between 1970 and 1977. In Denmark and the Netherlands too, the 1970s saw significant growth in this sector, followed by a period of stability. In France and the FRG, however, it was only after 1980 that the owner-occupied sector grew. Throughout the period 1970 to 1988 the owner-occupied sector continued to expand in the United Kingdom.

Table 2.21 presents data on the age of the housing stock. In the case of 1981 most of the data are based on the censuses conducted in European-Community countries in that year. In the cases of France, the United Kingdom, Belgium and Denmark, a relatively large part of the housing stock dates from before 1945. The housing stock in the Netherlands, the FRG and Sweden is comparatively young.

Table 2.22 illustrates the percentage of houses with central heating and with a bath or shower. In France and Belgium the percentage of houses with a bath or

Table 2.21 Housing stock by period of construction, 1981-88

		1981	1984	1985	1986	1988
Netherlands	before 1906	8			7	
	1906-44	20			18	
	since 1945	63			67	
	unknown	9			8	
FRG	before 1949	33			35 ⁴	
	since 1949	67			65 ⁵	
France	before 1915	29 ¹	43			
	1915-48	14 ¹				
	since 1949	56 ¹	57			
Belgium	before 1919	26				
	1919-45	23				
	since 1946	48				
	unknown	3				
U.K.	before 1919	29		28		
	1919-45	21		21		
	since 1946	50		52		
Denmark	before 1919	23				23
	1919-45	21				22 ²
	since 1946	54				55 ³
Sweden	before 1921			13		
	1921-40			13		
	since 1941			74		

¹ 1982 ² 1920-49 ³ since 1950 ⁴ before 1946 ⁵ since 1946

Sources 1981: Wurostat (1988)

later years:

Sweden: SEB (1989)

United Kingdom: DOE (1986)

France: United Nations (1988)

Denmark: Danmarks Statistik (1989)

FRG: NEI (1989)

Netherlands: VROM (Ministry of Housing) (1990)

shower is relatively low, and in France, Belgium and the United Kingdom relatively few dwellings have central heating. The percentage of houses with central heating is highest in Sweden.

2.4.4 New housing construction

Unlike the Netherlands, the United Nations does not distinguish between single-family housing and housing on multi-family residential estates; UN data include both single- and two-family housing in the same category. They therefore include

Table 2.22 Amenities (%)

	Central heating	Bath or shower
Netherlands ¹	73	98
FRG ²	70	92
France ³	68	85
Belgium ⁴	51	76
United Kingdom ³	66	97
Denmark ⁵	88	95
Sweden ⁶	99	99

¹ 1985 ² 1980 ³ 1984 ⁴ 1981 ⁵ 1988 ⁶ 1983

Source: NEI (1989)

detached houses, semi-detached housing, terraced housing, and multi-family housing with one or two dwellings on one or more floors. Table 2.23 illustrates the proportion of single- and two-family housing in new housing construction. This proportion was relatively high in Belgium, the United Kingdom, Denmark and the Netherlands; in the case of the Netherlands no separate data are available concerning the number of two-family houses constructed, and the figures presented in Table 2.23 therefore exclude two-family housing construction, leading to an understatement of the proportion of single- and two-family houses constructed in the Netherlands.

It is notable that in the smallest countries with the highest housing densities, Belgium and the Netherlands, the proportion of single- and two-family housing in new housing construction is high, whereas in countries such as Sweden and France, countries with a low housing density, this proportion is much smaller.

Table 2.23 Single- and two-family houses completed, as a percentage of total new housing, 1970-87

	1970	1975	1980	1985	1986	1987
Netherlands ¹	71.0	76.0	79.0	69.1	73.0	74.0
FRG	44.1	48.2	68.6	53.0	-	-
France	38.6	43.7	66.1	64.5 ³	64.7	-
Belgium	62.4	66.7	70.2	81.9	-	79.9
United Kingdom	70.6	71.9	72.8	79.1	79.7	-
Denmark	59.6	73.4	76.8	73.1 ³	-	-
Sweden ²	33.4	63.6	69.1	48.0	47.0	49.0

¹ Includes only single-family housing

² As of 1980 includes dwellings on specific residential estates for the elderly and for those living alone

³ 1984

Source: United Nations, *Annual Bulletin of Housing and Building Statistics for Europe*, several years

Table 2.24 Average number of rooms per dwelling completed, 1970-87

	1970	1975	1980	1985	1986	1987
Netherlands ⁴	5.1	4.7	3.9	3.9	3.5	3.7
FRG ³	4.4	4.5	4.8	4.4	4.6	-
France ²	3.6	3.6 ¹	4.0	3.8 ⁶	-	-
Belgium ⁵	5.1	5.1	5.3	5.6	5.5	5.4
United Kingdom	4.5	4.5	4.5	4.1	4.3	-
Denmark	4.5	4.7	-	3.3	-	-
Sweden	3.9	4.7	5.1	4.4	4.3	4.3

¹ 1976

² Before 1977 based on number of house building permits granted rather than number of housing completions. Kitchens with a surface area less than 12 sq m not included prior to 1977. Kitchens with a surface area of less than 9 sq m not included after 1977.

³ Rooms less than 6 sq m not included

⁴ Since 1976 excluding kitchens

⁵ Excluding one-room dwellings in collective housing units

⁶ 1984

Source: United Nations, *Annual Bulletin of housing and building statistics for Europe*, several years

Table 2.24 looks at the average number of rooms per new dwelling completed during the period 1970-87. The data are not strictly comparable because of the different definitions employed in different countries. In the Netherlands, for example, since 1976 the kitchen has not been counted as a separate room, while in France and the FRG rooms smaller than a certain area are not counted as rooms in official statistics.

It appears from this table that the dwellings completed in Belgium have, on average, the largest number of rooms. The average number of rooms per dwelling completed has decreased since 1980 in most countries. For the last few years covered by this table, there is evidence that in some countries (the FRG, the Netherlands, the United Kingdom) the number of rooms per dwelling has increased.

THE NETHERLANDS

3.1 Administrative and legal systems

The Netherlands is a parliamentary democracy with a constitutional monarch as head of state. Parliament consists of two houses. Legislative power rests with the cabinet and Parliament (the Upper House and the Lower House) together. Moreover, the government is responsible to Parliament. Under the constitution the members of the Lower House are directly elected under a system of proportional representation. The members of the Upper House are indirectly elected by the members of the Provinciale Staten (the provincial councils), and they in turn are directly elected under a system of proportional representation.

Unlike the Upper House the Lower House has the right to initiate legislation and to amend the government's legislative proposals. In practice the Upper House scrutinizes what the Lower Houses has already considered and examines its proposals in the light of the constitution and prevailing legal opinion (Koopmans, 1987).

There are three distinct levels of administration in the Netherlands: central government, the provinces, and local authorities. There are 12 provinces and 647 local authorities (1 January 1991). The provinces and the local authorities have their own extremely diverse functions and powers. We shall mainly consider their functions and powers in the field of housing. The role of local authorities and the provinces in environmental planning will be considered in section 3.2.

In the field of housing the provinces have a mainly supervisory and co-ordinating function. Thus the province plays a role in the distribution of housing subsidies to local authorities. Local authorities have to fulfil a number of legal obligations. The Housing Act obliges local authorities (subject to the approval of the provincial government) to introduce building regulations, and these are required, among other things, to cover the construction, use and demolition of buildings, and the condition of these buildings. Planning permission is required from the local authority for the construction of a home or another type of building. The local authority considers requests for new construction in the light of building regulations and current development plans (see section 3.2).

After the Second World War central government became directly involved in housing to a considerable degree. At first the emphasis was on the construction of large numbers of homes. In the 1970s the functions of the government were greatly increased as a result, among other things, of the introduction of rent rebates and long-term subsidies for the construction of rented housing and the implementation of various urban renewal schemes.

Since the beginning of the 1980s there has been a process of decentralization in housing. Subsidies are made available to local authorities through budget and capital grants schemes; there is a certain mutual interchangeability between types of subsidies, so that there is more scope at the local authority level for determining local priorities. Larger authorities receive their grants directly from central government, while in the case of smaller local authorities the province acts as an intermediary. As part of this policy of decentralization the *Wet op de Stads- en Dorpsvernieuwing* (Urban Renewal Act) was introduced in 1985. It led to the replacement of a total of nineteen different central government subsidy schemes. Money from central government for urban renewal is distributed to local or provincial urban renewal schemes. These grants are then distributed within each local authority area according to local authority grant regulations.

The subsidizing of new housing construction in the non-profit rented and the owner-occupied sectors and the improvement of non-profit rented housing is currently being devolved on to local authorities. It is expected that a new subsidy regime will be introduced in 1992 whereby annual budgets will be made available to local authorities for new construction and for the improvement of existing housing. Under this scheme local authorities will then have more freedom in distributing the resources available to them (see Papa, 1991).

3.2 Environmental factors and environmental planning

The Netherlands, with a population of 15.6 million and a surface area of 37,330 sq km, is one of the most densely-populated countries in the world. It is expected that as a result of natural growth and levels of net migration to the Netherlands the population will continue to grow until after the turn of the century (see Chapter 2). Approximately 9% of the surface area of the country consists of water. Most of the land (some 72%) is devoted to agriculture. Another 12% has been built upon (providing infrastructure, housing and places of employment) (MVRM, 1990). Nevertheless, the country can be described as essentially urban (Economic Commission for Europe, 1988: 35). The most urbanized region in the country is the west. The population density there is around 1000 per sq km.

The powers of the various tiers of government in the field of environmental planning are specified in the *Wet op de Ruimtelijke Ordening* (Environmental Planning Act). This act tries to ensure the best possible degree of mutual compatibility between the need for space in a particular area and the demands set by society (Koopmans, 1987). At the level of central government we see a two-fold

division of functions, namely the drawing up of national-level plans and regulations and the monitoring of the activities of the provinces and local authorities. This same two-fold division is also apparent at the provincial level: the provinces are responsible for drawing up regional plans and for monitoring the activities of local authorities. Local authorities are responsible for drawing up and implementing local structure and development plans.

National planning policy provides a framework within which regional plans can be developed. The Minister for Housing, Physical Planning and the Environment (Volkshuisvesting, Ruimtelijke Ordening en Milieubeheer) can require the provincial authority to draw up or to revise a regional plan; in this way directions can be given concerning the content of regional plans. In practice this occurs only rarely.

By means of regional plans the province can determine the general outlines of environmental planning, and it is thereby involved in a number of different areas of policy (nature conservancy, housing construction, economic development, road building). Regional plans cover the whole province or parts of the province. They provide a framework within which local authorities can develop local structure plans and land use plans. The structure plan has the character of a programme: it describes in general terms how a particular area should ideally be developed. These can be elaborated in more specific land use plans. Land use plans consist of a map detailing land use and regulations to control the use of land and buildings (Koopmans, 1987). The land use plan is a central element in the Environmental Planning Act, partly on account of the fact that it has the character of a generally-binding regulation.

A local authority can draw up one or more land use plans for the municipality for which it is responsible. In the case of those areas outside the built-up parts of the municipality, the local authority is obliged to draw up a land use plan, and in the case of the built-up area itself the local authority is empowered to do so. There is a procedure laid down which aims to ensure that all those affected by the plan are fairly treated.

Central government and provincial governments can influence the contents of these plans; the provinces consider whether proposed land use plans conform to the general guidelines laid out in regional plans. Moreover, since 1986 the Minister has had the direct authority to require a local authority to draw up or to revise a land use plan. In this way the Minister can make directions concerning the contents of plans in order to implement national planning policy (Koopmans, 1987).

On the basis of the various planning reports which have appeared we consider below the development of national planning policy in the Netherlands since the 1960s. In this, government policy on urbanization is central.

In the Netherlands there was a development in the 1960s, particularly in the western part of the country (the so-called Randstad), whereby urban growth ceased to be a general feature of large urban conglomerations but was instead concentrated in special growth centres. It was hoped thereby to slow down the alarmingly high rate of suburbanization and to preserve open greenland sites (Rijksplano-

logische Dienst, 1986).

In the *Derde Nota over de Ruimtelijke Ordening* (the Third White Paper on Environmental Planning), and particularly the *Verstedelijkingsnota* (White Paper on Urbanization) (Tweede Kamer, 1975-76), the maintenance of existing urban structures was, in addition to the development of new urban areas, a central feature. In this context considerable importance was attached to urban renewal. The decline in the housing stock that resulted from this policy was one of the origins of the inevitable overpopulation that the growth centres were expected partly to absorb. Furthermore, a distinction was introduced between growth centres and growth cities. The suburbanization that had led to the emergence of growth centres in the west of the Netherlands occurred in other parts of the country too. In 1975 therefore it was decided to designate a number of cities outside the Randstad as growth cities; their functions were to absorb growth elsewhere by expanding their own urban structures and infrastructure (Rijksplanologische Dienst, 1986). The central principles of planning were therefore to preserve the quality of life in the cities, to limit overpopulation, and to concentrate on growth centres and growth cities as the solution to inevitable overpopulation.

The various planning reports had assumed that there would be a further increase in the population and more rapid economic development. These expectations were not realized however. Moreover, the development of growth centres had disadvantageous consequences for larger cities: excess population, out-migration, a less favourable population structure, fewer employment opportunities and fewer facilities.

The *Struktuurschets Stedelijke Gebieden* (Urban Areas Structure Plan) (Tweede Kamer, 1985-86) outlined the government's "compact city" policy. The principal emphasis was on the city centre: new housing, work, and recreational areas had to be located preferably in, where necessary near, and, only if it could not otherwise be avoided, outside city centres. As a result of the continued lack of rapid population growth there was no further necessity for a wide-ranging policy of promoting growth centres; on the other hand the compact city policy offered only limited possibilities. The growth centre policy was therefore not immediately ended. A limited number of centres continued to exist until after 1990.

In the *Vierde Nota over de Ruimtelijke Ordening* (Fourth White Paper on Environmental Planning) (Tweede Kamer, 1987-88b), which appeared in March 1988, the policy outlined in the *Struktuurschets Stedelijke Gebieden* concerning urbanization was maintained unchanged. Partly in order to promote the internationally competitive position of the Netherlands, a number of key urban centres were designated. These cities have important regional functions and are well-placed to meet competition from other Dutch cities and cities outside the Netherlands.

In the case of the largest cities in the Randstad (Amsterdam, Rotterdam and The Hague) there are, moreover, plans relating exclusively to a number of sizeable redevelopment projects in or around inner-city areas. These are mainly concerned with top locations for offices, the construction of more expensive housing, the provision of more up-market shopping facilities, hotels, tourist attractions, and

improvements to telecommunications links, public transport and the motorway network. The context for these plans is the greater international competition in attracting companies etc.

The Vierde Nota over de Ruimtelijke Ordening considered that it was largely the function of the private sector to ensure that supply and demand in the housing market were in equilibrium. Those public authorities involved in housing construction were thereby required to devote themselves to:

- creating favourable conditions for the development of good quality housing and a more pleasant residential environment for new housing schemes in the locations desired;
- determining the preconditions for development in less desirable locations;
- concentrating its own housing policy on that part of the housing stock not covered by the market.

The Vierde Nota over de Ruimtelijke Ordening Extra (Tweede Kamer, 1990-91), published in November 1990, can be regarded as a supplement to and a further elaboration of the Vierde Nota over de Ruimtelijke Ordening published in 1988. The tension between economic development and ecological considerations particularly played an important role in this report. In its policy of urbanization, too, because of the restrictions on mobility considerable emphasis was then put on population concentrations in choosing locations for new housing, employment and public services.

In the Vierde Nota over de Ruimtelijke Ordening it was assumed that the growth in the housing stock necessary during the period 1988-2015 was of the order of 1.5 million homes. Of these almost 1 million would have to be built in the Randstad (Tweede Kamer, 1987-88b: 41-42). In the Vierde Nota Extra it was estimated that the number of new houses required in the period 1995-2015 was 835,000. Of these 835,000 the four Randstad provinces (North and South Holland, Flevoland, and Utrecht) would have to provide 485,000 (Tweede Kamer, 1990-91: 25-26).

3.3 The organization of the housing market

3.3.1 Housing tenure

As in many other countries in western Europe three types of tenure can be distinguished in the Dutch housing market: owner-occupation (which accounted for 44% of the total housing stock in 1990), the private rented sector (12%), and the non-profit rented sector (44%) (MVROM, 1990). Table 3.1 gives the distribution of the housing stock by housing tenure for the period 1975-89.

The non-profit rented sector and the private rented sector can be further divided according to ownership. Table 3.2 illustrates this for 1989. The private rented sector is composed of individual landlords and companies.

Table 3.1 Housing stock ('000) by tenure (%), end of year figures, 1975-89

Year	Owner-occupied	Non-profit rented sector	Private rented sector	Other	Total
1975	39	41	20	0	4 281
1981	42	39	17	2	4 957
1985	43	42	14	1	5 384
1989	44	44	12	0	5 802

Sources: Woningbehoefte Onderzoeken; Nationaal Rayononderzoek

The non-profit rented sector consists of housing associations and local authority housing departments. We shall examine these categories in greater detail in the rest of this section.

Table 3.3 presents a summary of the housing characteristics of each tenure group. The size of dwellings is given in terms of the number of rooms, including the kitchen. Dwellings with five rooms (38.4% of the total housing stock) account for the largest proportion of the housing stock, followed by six-room dwellings (22.8%). Large dwellings are relatively more common in the owner-occupied sector.

Dwellings with six rooms or more are significantly more frequent in this sector than in the rented sector. The high proportion of homes with five rooms (43.2%) in the non-profit rented sector is striking. In the private rented sector there are relatively many small dwellings.

Almost 69% of all occupied housing are single-family dwellings. These are especially common in the owner-occupied sector; around 91% of homes in this sector are of this form. In the rented sector the proportion of single-family dwellings does not differ greatly between non-profit rented housing and private rented sector housing. In the former, single-family dwellings account for 53.9% of the housing stock, and in the case of the private rented sector the figure is 46.7%. Houses in the owner-occupied sector have the highest level of amenities; the proportion of homes in this sector with bath/shower, central heating etc. is higher than the corresponding proportions for the housing stock as a whole. In the rented sector it is those private rented homes which have fewest amenities. Within the private rented sector a distinction can be made between two types of housing:

Table 3.2 Ownership of the housing stock, 1989

Owner	%
Owner-occupiers	44
Individual landlords	6
Companies	6
Housing associations	38
Central and local government	6

Source: Nationaal Rayononderzoek (NRO) (1989)

Table 3.3 Housing characteristics by sector, 1986

	Total	Owner-occupied	Rented sector		Private ²	Unknown
			Total	Non-profit ¹		
Dwellings ('000s)	5 063.1	2 105.0	2 958.2	2 184.5	697.4	76.2
	%	%	%	%	%	%
No. of rooms						
≤3	12.2	3.6	18.7	18.2	19.9	21.0
4	16.8	10.3	21.8	21.2	23.4	22.9
5	38.4	36.1	40.2	43.2	32.8	26.3
6	22.8	32.0	15.7	15.2	17.1	17.8
≥7	9.8	18.0	3.6	2.3	6.8	11.9
Type of building						
single-family dwelling	68.9	91.1	51.9	53.9	46.7	47.1
flats etc.	31.1	8.9	48.1	46.1	53.3	52.9
Amenities						
bath/shower	97.9	98.7	97.4	98.7	93.5	96.6
central heating	72.7	79.7	67.3	71.9	5.8	66.0
cavity-wall insulation	33.4	37.0	30.7	35.9	16.7	16.9
double glazing/double windows in the living room	51.7	58.5	46.6	53.9	26.0	35.1

Source: WBO 1985/1986

¹ Housing associations and local authorities² Individual landlords and companies

the mostly pre-war, fragmented possessions of individual landlords, and the more complex-type managed (mostly post-war) housing stock of companies, including institutional investors (Adriaansens and Priemus, 1986). The low level of amenities provided in the private rented sector results principally from the few amenities provided in the housing rented out by individual landlords rather than by companies. Of those homes rented out by companies 72.8% have central heating, while the corresponding percentage for rented accommodation owned by individual landlords is 38.3% (these figures are not given in Table 3.3). The same pattern is evident in the case of insulation. Of those properties owned by companies 27.5% had (cavity-)wall insulation and 38.5% were either doubled glazed or had double windows in the living room; the corresponding percentages for properties owned by individual landlords were 7.8% and 15.6% respectively.

Table 3.4 gives details of new housing completions for the period 1970-90. For the years 1984-87 it is not possible to distinguish between housing constructed without subsidies and housing built with one-off grants (see section 3.3.2). The distinction made in the table between non-profit rented housing and private sector rented housing relates to the method of financing housing construction. Non-profit rented housing is provided by housing associations and local authorities and was until

Table 3.4 Average number of housing completions by sector, 1970-90

Year	Non-profit-rented	Private rented sector			Owner-occupied sector			total
		with subsidy	one-off grant	without subsidy	with subsidy	one-off grant	without subsidy	
1970	45 349	26 052	-	2 890	25 698	-	17 295	117 284
1971	50 025	33 403	-	1 925	30 917	-	20 325	136 595
1972	53 455	41 986	-	1 918	30 325	-	24 588	152 272
1973	55 765	37 626	-	2 192	30 946	-	28 883	155 412
1974	48 257	32 280	-	1 467	29 896	-	34 274	146 174
1975	40 130	23 454	-	777	31 013	-	25 400	120 774
1976	36 420	17 415	-	569	32 080	-	20 329	106 813
1977	35 315	15 122	-	734	33 362	-	26 514	111 047
1978	29 230	11 806	-	1 036	34 233	-	29 520	105 825
1979	23 596	7 208	-	940	27 812	-	27 966	87 522
1980	38 881	9 820	-	1 267	36 049	-	27 739	113 756
1981	54 979	14 538	-	1 274	30 124	-	16 844	117 759
1982	65 589	22 568	-	1 052	26 020	-	8 081	123 310
1983	52 611	21 735	-	633	30 230	-	5 918	111 127
1984	49 233	18 051	2 853		27 969	14 626		112 732
1985	34 596	16 201	4 009		25 502	17 823		98 131
1986	35 770	13 929	4 963		25 587	23 081		103 330
1987	35 851	11 443	4 418		26 297	32 082		110 091
1988	40 197	8 794	1 507	1 018	23 493	18 757	24 680	118 446
1989	35 976	6 146	2 107	1 488	20 749	15 936	28 831	11 233
1990	28 449	5 950	1 393	1 606	18 374	10 259	31 353	97 384

Source: CBS, Maandstatistiek Bouwnijverheid

recently financed largely by loans from central government (see section 3.3.4). In addition, housing associations can also provide "private rented housing", and this has traditionally been financed by the capital market. Though the system of central government loans for financing the construction of non-profit rented housing was abolished (in 1988), the distinction between the private sector and the non-profit rented sector can still be employed, though now on the basis of the different subsidy systems for non-profit rented housing and "private rented housing". The division of the rented housing stock into a non-profit rented sector and a private rented sector which is employed in this chapter relates to ownership of the property. Houses owned by housing associations and local authorities are thereby included in the non-profit rented sector, irrespective of the method of financing or subsidizing.

3.3.2 The owner-occupied sector

After the Second World War the proportion of the total housing stock accounted for by the owner-occupied sector was 28% (van der Schaar, 1987). After a gradual increase to 32% in 1967 there was a rapid expansion in owner-occupation in the Netherlands during the course of the 1970s, and by 1981 42% of the total housing stock was owner-occupied. After 1981 growth in owner-occupation stagnated. In

section 3.4.3 we discuss the factors that have influenced this development in owner-occupation.

The promotion of owner-occupation has been an increasingly important element in government policy since the Second World War. In 1953, for the first time, a system of discounts was introduced to those wanting to buy a house. This was replaced in 1968 by a system of fixed-period annual subsidies, comparable to the subsidy system for rented housing. The level of subsidy was not dependent on income. As a result of the tax arrangements relating to these annual subsidies (see Papa, 1991) those owner-occupiers on low incomes benefited most. The 1974 Nota Huur- en Subsidiebeleid (White Paper on Rent and Subsidy Policy) supported promoting greater choice in the housing market. It was the responsibility of government policy to remove restrictions to choice. Subsidies were therefore aimed more specifically at expanding ease of access to the owner-occupied sector, particularly for low-income groups (van der Schaar, 1987).

In 1979 a system of grants for the construction of homes in the owner-occupied sector was introduced. The scheme made a distinction between two sectors, A and B. Those homes for which sector-A grants were available were intended for those on low-incomes; the amount of the grant was dependent on their level of income. Under this scheme grants were only available for housing whose building costs were below a certain limit (see Papa, 1991, for a detailed description of the rules). The grants available for so-called sector-B housing were related only to the building costs of the house. In the case of both sectors A and B the system of fixed-period annual subsidies was maintained. The rules relating to grants have been revised a number of times since 1979, and in 1988 the sector-B grant was discontinued. Table 3.5 provides a summary of the number of grants allocated in the period 1979-89. In addition to the grants available for sector-A and sector-B housing a scheme was introduced in 1984 whereby a one-off grant of f 6500 was made available for the construction of homes whose costs fell below a certain limit. This was the so-called sector-C housing. The purpose behind this grant was to encourage the construction

Table 3.5 Number of grants allocated for housing in the period 1979-89

Year	Sector-A grants	Sector-B grants	Total
1979	10 838	22 893	33 731
1980	19 725	13 333	33 058
1981	26 303	6 602	32 905
1982	22 038	4 956	26 994
1983	20 721	9 374	30 095
1984	17 952	12 000	29 952
1985	17 000	9 000	26 000
1986	20 000	6 000	26 000
1987	21 271	5 993	27 264
1988	20 308	-	20 308
1989	19 999	-	19 999

Source: MVROM (1990: 51)

Table 3.6 Number of one-off grants allocated for housing in the period 1984-89

Year	Sector-C grants	Sector-D grants	Total
1984	10 000	-	10 000
1985	19 000	-	19 000
1986	19 000	1 000	20 000
1987	17 988	2 003	19 991
1988	17 782	-	17 782
1989	14 847	-	14 847

Source: MVRM (1990: 52)

of rented and owner-occupied housing in the cheaper unregulated sector of the housing market. Most of the sector-C housing constructed was for owner-occupation. In addition, sector-C housing was also built in the rented sector, mostly by institutional investors. In 1986 and 1987 there was also a short-lived sector-D scheme under which a lump sum of f 20,000 could be paid for housing constructed in areas of urban renewal (van der Schaar, 1987). Table 3.6 illustrates the number of grants awarded under the sector-C and sector-D schemes during the period 1984-89.

Most of the housing constructed with financial assistance from the government was built in the owner-occupied sector (see Table 3.4). Of those new owner-occupied houses completed, the number built without subsidies is still, despite a significant increase in the second half of the 1980s, lower than the number built with subsidies (including one-off grants).

3.3.3 The private rented sector

The share of the total housing stock accounted for by the private rented sector fell from 60% in 1947 to 12% in 1989. This decline has largely been the result of the significant fall in the number of properties owned by individual landlords (Adriaansens and Priemus, 1986). In the period 1982-86 the proportion of the total housing stock owned by individual landlords fell from 10.2% to 7.6%. In the same period the proportion owner by companies etc. (including institutional investors) declined from 7.0% to 6.2%. By the end of 1986 institutional investors owned a total of 240,000 properties, or around 4.5% of the total housing stock (Conijn and Papa, 1987: 120).

A significant proportion of housing in the private rented sector reflects the relationship between housing and pension schemes. In the pre-war housing stock there are a few properties rented out by private individuals who bought with an eye to providing for their old age. In the case of the post-war housing stock the connection between housing and providing for old age is through institutional investors (pension funds or life insurance companies).

The private rented housing built before the war consists mostly of relatively poor housing, small and cheap, usually in the form of medium-rise buildings situated in city centre districts. Tenants are often young or very old. There is a high rate of

mobility. Many of these properties are being sold to sitting tenants or to local authorities and housing associations. The management of housing in this sector is mostly handled by estate agents and housing agencies.

The private rented housing built after the war, most of which is owned by institutional investors, represents a completely different type of housing from that built before the war. It tends to consist of good quality, large and expensive housing, concentrated in areas of the Netherlands where the demand for housing is high. Tenants have a relatively high level of income and are mobile. Housing in this sector, too, is left to the management of estate agents and housing agencies. Housing per se is not the principal concern of investors. They are more interested in safeguarding pensions and insurance premiums (Adriaansens and Priemus, 1986). New construction in the private rented sector is mainly realized by private companies, and especially institutional investors. Most new construction is subsidized, either in the form of subsidies to rented housing or (since 1984) sector-C grants. Between 1968 and 1975 a subsidy system operated which provided, as in the non-profit rented and owner-occupied sectors, fixed-period annual grants. After the subsidy had ended the landlord was able to make an operating profit because basic rents were then higher than cost price rents.

In 1975 a new method of subsidization was introduced throughout the rented sector. This was based on a system of "dynamic cost rents" (see Papa, 1991), under which the cost of providing the dwelling was based on a calculation to amortize the likely costs over a period of 50 years; the combined level of rent and subsidy had to cover these costs. In principle, operating surpluses and the realization of capital profits on the sale of a house were prevented (Conijn and Papa, 1987). The result was that many companies were no longer prepared to invest in the provision of housing. Only when the rules were revised in 1980 to permit higher yields on housing investment did the number of completed houses in the private rented sector increase somewhat. Furthermore, since 1984 the private sector has built more rented housing in the unregulated sector of the housing market (see Table 3.4). The introduction of sector-C grants was an important stimulus to this. From 1989 the method of subsidizing the construction of grant-assisted rented housing by institutional investors has been changed. The system based on dynamic cost rents has been replaced by a subsidy system under which an annual grant of f 2000 is made for a period of five years.

3.3.4 The non-profit rented sector

The proportion of the total housing stock accounted for by the non-profit rented sector rose from 12% in 1947 to 44% in 1989. Within the non-profit rented sector there are two groups active in constructing and providing housing: housing associations and local authorities.

Housing associations are exclusively engaged in promoting housing. The 1901 Housing Act included provisions for the operation of these housing associations. The administrative form of these organizations is 75% that of an association and 25% that of a foundation. The c. 850 housing associations in the Netherlands manage about 2 million dwellings, around 30% of the total Dutch housing stock.



Many aspects of the activities of housing associations are regulated by central government: housing associations are therefore sometimes referred to as "state private concerns". Housing associations are monitored primarily by the local authority in which they operate. In addition, a form of supervision is exercised by central government. The associations are united under two umbrella organizations: the Nationale Woningraad (NWR) (National Housing Council) and the Nederlands Christelijk Instituut voor Volkshuisvesting (NCIV) (Netherlands Christian Housing Institute). There are regular consultations between these organizations and the Ministry of Housing, Physical Planning and the Environment.

Local authority housing organizations are local government bodies directly involved in providing and constructing housing. Some of them are independently incorporated companies, while others are departments of the local authorities themselves. Local authority housing organizations function to a great extent according to the same rules as a housing association. Since 1965 housing associations have by law been ascribed a more important role in the provision of non-profit rented housing than local authority housing organizations. In practice this was laid down in a circular published in 1969. The construction of housing by local authorities is in principle therefore supplementary to that provided by housing associations. The proportion of total annual new construction accounted for by local authorities is between 5% and 6%. There are around 330 local authority housing organizations and collectively they own about 335,000 homes (Tweede Kamer, 1988).

On account of the fact that most housing in the non-profit rented sector was constructed after the Second World War, and that the houses in this sector can therefore be regarded as relatively young (see Table 3.7), rents tend to be higher than average. Housing association property is well-maintained though and the general quality of the buildings and their amenities is relatively high. The tenants come from a broad spectrum of income groups, and in terms of other characteristics too they represent a broad cross-section of society. On average their incomes are higher than those of tenants in private rented sector housing built before the war.

As a result of housing associations being given a more important role than local authorities in the provision of non-profit rented housing, the housing stock of local authorities is on average older (see Table 3.7) and cheaper than that of housing associations. Furthermore, local authorities seem to fulfil a special function in their housing allocation policy. Those seeking housing who cannot or do not want to be assisted elsewhere are usually found a place in local authority housing. Average incomes of tenants in local authority housing are lower than those of tenants in housing association housing (Adriaansens and Priemus, 1986).

The overwhelming majority of housing association and local authority housing consists of so-called Housing Act dwellings. Housing Act dwellings are primarily intended for those on low incomes. Until recently the loans necessary to finance the construction of Housing Act dwellings were provided by the government.

Interest on the loans and capital repayments were then paid by the housing associations and local authorities to central government. At the end of the 1970s

Table 3.7 Breakdown of the pre-war and post-war housing stock controlled by local authorities and housing associations, 1986)

Number of dwellings	No. of local authorities with housing dating from		No. of housing associations with housing dating from	
	pre-war	post-war	pre-war	post-war
0 - 600	2	33	5	57
600 - 1 800	3	52	16	294
1 800 - 4 000	6	41	37	534
4 000 - 10 000	8	69	51	552
> 10 000	33	60	15	120
Total	5	255	124	1557

Source: Priemus (1990)

a variant of this appeared, the housing association A-dwelling, which the association had to finance by resort to the capital market. The local authority guaranteed the interest payments and the capital repayments and central government in turn guaranteed these guarantees. In 1988 central government loans for the construction of Housing Act dwellings were discontinued and housing associations now have to rely on the capital market to finance new construction. In addition, since 1989 central government has no longer guaranteed loans taken out by the associations. In 1984 and 1986 respectively, government loans for improving post-war and pre-war housing were abolished. In 1984 therefore the government, the housing associations and the local authorities set up a Guarantee Fund, the purpose of which was to improve access to the capital market by housing associations. The idea behind the Fund is that it can offer investors a greater degree of security and that this can have a moderating effect on interest rates and on other conditions attached to the loan (Priemus, 1990).

In addition to Housing Act dwellings housing associations also build more expensive grant-assisted rented housing. These dwellings are financed by the capital market and may be likened to the subsidized rented housing provided by the private sector. Since 1989 housing associations have been permitted to build granted-assisted rented housing only under extremely stringent conditions. Along with housing associations and local authority housing organizations there is also a small category of non-profit landlords; for many years there were no legal provisions regulating their operation. In 1987 344 non-profit organizations were registered with the government, and collectively they owned some 200,000 dwellings. These organizations are mostly concerned with the provision of housing for specific groups, such as the elderly and students. In addition, a number of mostly regional or national non-profit organizations provide more expensive rented housing (similar to the housing owned by institutional investors) (Tweede Kamer, 1988).

Since 1982 greater control has been exercised over the activities of these non-profit organizations. As from 1990 they have been required to have the status of

approved organizations in order to be eligible for government subsidies for housing construction. As a result, this category of landlords falls under the same regulatory system as the housing associations. Furthermore, the government is encouraging the privatization of local authority housing organizations by hiving off their housing stock to existing housing associations or by the local authority housing organizations becoming housing associations. The government is thereby trying to promote a situation in which one category of landlords, the housing associations, is normative for the entire non-profit rented sector (Priemus, 1990).

As in a number of other West-European countries there is an independent housing advisory body: the Raad voor de Volkshuisvesting (RAVO) (National Advisory Council on Housing). This council was set up under the terms of the Housing Act and can be called on to make recommendations concerning housing. It also has the power to initiate its own studies. The RAVO has existed in fact since 1950 but it has had a legal status only since 1965. The Minister for Housing has to present any proposals for changes in regulations affecting housing to the RAVO. The recommendations made by the RAVO often play a role in political decision-making. The following groups are represented on the RAVO:

- representatives of organizations involved in housing and health care;
- experts in administrative and technical aspects of housing;
- experts in provincial and local authority administration (Adriaansens and Priemus, 1986).

3.3.5 The construction industry

In considering the level of output in the construction industry in the Netherlands a distinction can be made between the construction of housing and public utilities on the one hand and transport infrastructure on the other. In this section we shall restrict ourselves to considering the construction of housing and public utilities. Table 3.8 gives the value in current prices of housing and public utilities construction for the period 1975-88. Output increased up to 1980. After 1980 it fell continuously until about 1985. In 1985 output bottomed out and the years thereafter saw something of a recovery in construction levels.

The significant fall in output levels in the construction industry during the first half of the 1980s reflected a general decline in the Dutch economy. As a result of unfavourable market expectations and declining profits, investment in office blocks and factories declined. In the housing market too demand for new and existing housing declined as a result of high real rates of interest and worsening expectations of future income. House prices fell and the level of unsubsidized building collapsed. The government responded to this crisis by expanding its housing construction programme; this was prompted in part too by the need to safeguard employment in the construction industry. The number of new homes constructed in the subsidized (rented) sector was greatly increased (see Table 3.8). The government was thus able to prevent a significant decline in levels of housing construction.

Table 3.8 Level of construction for housing and public utilities, 1975-88
(current prices, f million)

Year	New housing construction and development of other buildings	Rebuilding construction and development of other buildings	Total	Repair and renovation	Total
1975	6 553	4 727	11 280	1 159	12 439
1976	7 081	5 106	12 187	1 631	13 818
1977	8 759	6 081	14 840	2 065	16 905
1978	9 329	7 257	16 586	2 323	18 909
1979	9 208	7 776	16 984	2 640	19 624
1980	10 609	8 097	18 706	2 686	21 392
1981	10 178	7 164	17 342	2 558	19 898
1982	10 435	7 039	17 474	2 504	19 978
1983	9 961	6 289	16 250	1 964	18 214
1984	10 022	5 866	15 888	1 949	17 836
1985	8 772	5 811	14 583	2 194	16 777
1986	9 732	6 865	16 597	2 218	18 815
1987	9 967	6 943	16 910	2 290	19 200
1988	11 558	8 001	19 559	2 519	22 079

Source: CBS

After 1985 output levels in the construction industry increased once again. In a general sense the economic situation has improved. As a result of higher yields and a relatively low rate of interest company prospects are not unfavourable and the number of houses built for the private sector increased from 58,399 in 1985 to almost 75,000 in 1988 (see Table 3.9). At the same time, the number of (mostly subsidized) houses built by housing associations and local authorities declined from around 74,000 in 1982 to around 40,000 per year during the period 1985-89.

Of the housing built for the private sector a more detailed breakdown can be given according to those for whom the housing was constructed: institutional investors, building contractors building for the housing market, or others. Since 1983 information on this has been recorded by the Centraal Bureau voor de Statistiek (CBS) (Central Bureau of Statistics). Most housing built for "others" consists of single-house developments intended to be occupied by those commissioning the projects.

As we noted in the last section, institutional investors principally provide rented housing. In a large number of cases, however, the institutional investors do not themselves commission the construction of the houses they own. Housing projects are mostly developed for the market by building contractors and then offered to institutional investors.

The category "market-oriented builders" consists to a large extent of housing project development companies and construction companies, or a combination of these. They mostly construct houses for sale to owner-occupiers. The market-oriented

Table 3.9 Number of completions by sector, 1975-90

Year	Local authority and state	Housing associations	Institutional investors	Market-oriented builders	Other private sector	Total private sector	Total
1975	5 188	40 683	-	-	-	74 903	120 774
1976	3 327	36 213	-	-	-	67 273	106 813
1977	2 856	35 682	-	-	-	72 509	111 047
1978	2 850	29 339	-	-	-	73 636	105 825
1979	2 578	23 822	-	-	-	61 122	87 522
1980	5 319	38 154	-	-	-	70 283	113 756
1981	7 340	54 536	-	-	-	55 883	117 759
1982	8 056	66 256	-	-	-	48 998	123 310
1983	6 419	48 793	8 581	33 786	13 548	55 915	111 127
1984	6 269	47 463	8 305	35 617	15 078	59 000	112 732
1985	4 658	35 074	9 009	36 190	13 200	58 399	98 131
1986	3 112	36 969	7 871	40 202	15 176	63 249	103 330
1987	4 866	35 783	7 638	45 487	16 317	69 442	110 091
1988	3 957	39 500	6 858	51 403	16 728	74 989	118 446
1989	3 786	34 813	5 403	50 132	17 099	72 634	111 233
1990	2 870	28 952	5 304	44 746	15 512	65 562	97 384

Source: CBS, Maandstatistiek Bouwnijverheid

builders are different from other categories of developer in that they try to identify what the needs of the housing market are and to meet those needs. Other sectors are concerned only with meeting their own housing requirements. Housing development projects are undertaken and completed by market-oriented builders at their own cost and risk. As a result of their dependence on the demand for house purchases the number of dwellings built by market-oriented builders demonstrates the greatest degree of fluctuation.

3.4 The development of housing policy in the period 1970-90

3.4.1 Background

Like most other West-European countries the Netherlands was confronted with large-scale housing shortages after the Second World War, and the shortages later increased as a result of a growth in the number of households (see Table 2.1) and the low level of housing construction. The shortage of around 250,000 dwellings in 1945 had risen to 300,000 by 1948. Partly on account of these housing shortages the prevailing opinion until then, that housing construction was primarily the responsibility of the private sector and that the function of non-profit rented housing construction was to supplement private sector construction, changed. Under the Housing legislation then in force central government could only offer subsidies for non-profit rented housing in order to rehouse those living in slum dwellings (Adriaansens and Priemus, 1986: 12; van der Schaar, 1987: 164-167).

Given the manifest shortages that appeared after 1945 an unusually far-reaching

level of involvement by the state in housing was temporarily accepted. Because capacity in the construction industry was restricted the planning system was characterized by a strict quota scheme. Housing construction had no special priority under this: priority was given to the building up of the industrial sector (Adriaansens and Priemus, 1986: 13).

Partly because of a large increase in the cost of living, a rise in construction costs, and higher interest rates, high levels of supply subsidies were necessary in order to try to ameliorate the housing shortage. This led to changes in housing legislation in 1947, to permit general subsidies to be provided for Housing Act construction. The *Bijdrageregeling Woningwetbouw* (Grant Scheme for Housing Act Dwellings) followed in 1948 and was to apply retrospectively to all Housing Act dwellings constructed since 1945. The level of annual subsidies granted was based on the level of building costs approved by the Minister, and rent levels, which were set at 25% to 30% above their 1940 level; subsidies were restricted to meeting the shortfall between the two. In order to stimulate housing construction and to limit the level of subsidies a new *Bijdrageregeling Woningwetbouw* was introduced in 1950. Under this scheme the level of subsidy was to be related to objective criteria: housing capacity, i.e. the size of the housing being constructed. The requirement that rents should be 130% of their 1940 level and that building costs had to be covered remained though. In addition, stringent conditions were attached to the relationship between rent levels and building costs whereby considerable emphasis was laid on quality. As a result, around 1955 levels of housing construction threatened to stagnate. Adriaansens and Priemus (1986: 13) have noted in this respect that the government did not make use of a policy of intervention in housing in the 1950s to ensure continuity in housing construction. The construction industry was seen principally as a suitable weapon in the government's counter-cyclical economic policy. Less government involvement in the economy was considered necessary in 1952 (Korea crisis) and 1958 (a period of retrenchment), and it was above all the construction industry that bore the brunt of this. The result was that the construction industry experienced a period of considerable discontinuity and that unemployment co-existed with a shortage of housing that ran into the hundreds of thousands.

In order to prevent housing construction stagnating the regulations determining rent levels were altered in 1955. From 1955 rents were no longer to be related to pre-war rent levels but to the difference between the level of costs and subsidies. Van der Schaar (1987: 181) has noted that these new arrangements for calculating rents were accompanied not only by an increase in the quality of housing but also, and chiefly, by an increase in rents far more rapid than that in average incomes. As a result of this the housing problem for low-income groups became more pressing.

Both non-profit rented and private rented housing was subsidized. Indeed, van der Schaar (1987: 180) has argued that government subsidies were extremely broad-ranging in scope and considerable in amount. As much as 95% of all housing construction was subsidized; the method of subsidizing was adapted to specific sectors and, as a result of this, important differences emerged in determining rents,

costs and quality control between the various sectors. Despite the private sector's desire to have principal responsibility for housing construction the government was unwilling to support such a situation. Alongside ideological arguments, pragmatic considerations played a part in their decision not to support such an arrangement. The most important aim of the government was, given the circumstances, to ensure as high a level of housing construction as possible. This required cheap and systematic housing construction, with a considerable proportion being non-profit rented housing. This led by 1959 to around 25% of housing costs being borne by the state. This situation resulted in a general consensus emerging at the end of the 1950s that extensive subsidizing of housing must come to an end. Despite this consensus, government proposals to reduce subsidies led to considerable opposition (from, among others, housing associations and trade unions). In contrast to the past, when the emphasis had primarily been on securing high levels of construction, attention was now focused on problems of distribution. Housing pressure groups claimed that the housing problems of low-income groups implied the need for a continuing and important role for housing associations, and, as a result, the need to continue to subsidize housing. Increasing concern to ensure higher quality housing also provided a powerful argument against lower subsidies. The policy of deregulation introduced in 1959 by the Minister for Housing, Aartsen, and which initially seemed to be successful, foundered in the face of resistance from the Christian Democrats (CDA), the trade unions and the housing associations.

In 1963 Aartsen was replaced as Minister for Housing by Bogaers, and under him government expenditure on housing increased considerably. In a period of rapidly rising real incomes he made an increase in housing quality the cornerstone of the government's housing policy. As part of this the functions of the non-profit rented sector were expanded. In 1963 a White Paper was published concerning the implementation of a more wide-ranging and expansionary building policy. It was its intention to relate government approval and the system of housing distribution more to optimal production methods. Because the lack of skilled labour was considered to pose a bottleneck in the construction of new housing, the White Paper gave considerable support to a system of prefabricated construction. Adriaansens and Priemus (1986: 14) have noted in this respect that the quota allocation system began to exercise an autonomous influence on the choice of contractor, building forms, materials employed, the urban development plan, and housing design. Consumer preference tended to take second place to these other considerations.

Bogaers' expansionary policy was followed by another period of decline during the second half of the 1960s. Given the increase in central government expenditure, the crisis presented by overspending, and the results of the housing requirements surveys of 1964 and 1967, which seemed to suggest that the end of the housing shortage was in sight, the government argued that savings on housing expenditure were necessary. Moreover, greater scope was to be given to private initiative. The promotion of a level of housing construction sufficient to alleviate the housing shortage within the foreseeable future remained of primary importance. The most appropriate method of subsidizing housing in order to achieve this was one of the

most important areas of discussion during the 1960s and 1970s. This modified position formed the basis of the policies implemented by the housing minister, Schut, from 1967; these policies aimed at ensuring a gradual return to a more normal market relationship in housing and therefore to more market-related housing costs. Supply subsidies, which had helped promote the construction of better quality new construction, could hardly be discarded given the evident housing shortage, but they were required to be temporary. High annual rent increases and the introduction of rent rebates were intended to ensure this. In 1969 Schut took the important step of making housing associations rather than local authorities primarily responsible for the provision of housing in the non-profit rented sector (Adriaansens and Priemus, 1986: 14). In addition to continuing to grant supply subsidies for new housing Schut also introduced subsidies for slum clearance, renovation, redevelopment and reconstruction.

Van der Schaar (1987: 377) has argued that despite deregulation of the housing market being a principal element in the housing policy implemented by Schut, with hindsight we can see that the term deregulation conceals more than it reveals. The extent of government involvement in the housing (construction) market did not decrease. It did alter in character and, while aiming to maintain a high level of construction, it also aimed more at relating rent and subsidy policy to consumer preferences and to concentrating subsidies on the lower paid. The result of this was more government regulation but less direct control. The realization of a high level of housing construction remained the first priority of the government's housing policy. Among the electorate, too, alleviating the housing shortage remained one of the most important issues. The PvdA (the Labour Party) and the confessional parties too were forceful advocates of a policy of constructing more housing in the non-profit rented sector.

3.4.2 The period 1970-77: the choice of a mixed subsidy system and a continuing role for the government in housing

We have already noted that after the Second World War there was an extensive degree of involvement by the state in the provision of housing. Initially the emphasis in government policy lay on the use of supply subsidies, which were intended to promote investment in new housing construction and the improvement of existing housing and which, at the same time, formed part of its incomes policy (implemented with considerable success), enabling rents to be maintained at moderate levels. In the mid-1960s, when the post-war reconstruction of the Netherlands was completed, there were still a number of question marks hanging over the use of supply subsidies. In particular, the question of whether these subsidies were being received by the right groups led to an extensive discussion concerning the character of the subsidy system.

The policy of Schut, the incoming Minister for Housing in 1967 in de Jong's Liberal-Christian Democrat coalition government, was aimed at ensuring a gradual return to a more normal market relationship. Subsidies were to be limited to those for whom they were actually necessary. Low-income groups were to be housed largely in cheaper existing housing. Schut's plans to introduce a rent tax to ensure

this and to encourage better off households to move into more expensive housing were decisively rejected by the cabinet.

Proposals to introduce a system of rent rebates were much more successful. Despite the fact that the idea of introducing such a system had frequently been discussed since as early as 1901, the most important breakthrough occurred at the end of the 1960s. Although it seems somewhat contradictory, the principal purpose of the rent rebate scheme was to allow a return to the "normal relationship" between housing and the market (which implied deregulation) (see Priemus, 1984). There was, as we have noted, a growing degree of apprehension that supply subsidies were not benefiting those on low incomes. The abolition or reduction in supply subsidies would mean, however, that initial rents for new housing would greatly increase. In order to make new housing accessible to those on low incomes a new system of rent rebates was introduced. They were thus initially regarded as an additional instrument of policy that would enable a degree of deregulation within the housing market and the abolition of (housing related) supply subsidies (Lucassen and Priemus, 1977: 11).

It was during the transitional period 1967 to 1974, and specifically while Udink was Minister for Housing, that proposals to deregulate the housing market reached their high point. He too was a Christian Democrat and was appointed Minister for Housing and Physical Planning in 1971 in a new Liberal-Christian Democrat cabinet. The essence of the government's policy remained the limiting of government expenditure, by, among other things, introducing the principle of consumer-paid services. The cabinet collapsed after only a year, though it was not until May 1973 that a new cabinet was formally appointed. Despite the government's declared aim of wanting to cut expenditure the housing budget escaped being cut (van der Schaar, 1987: 130). On the contrary, the government's housing policy attached a high priority to housing, and the level of new housing construction increased to around 135,000. Nevertheless, in the 1972 *Nota Volkshuisvesting* (White Paper on Housing) Udink declared his fervent support for deregulation and a reduction in subsidy levels. This White Paper appeared less than two months before the cabinet collapsed and the actual influence of the proposals it contained was minimal. These proposals had included among other things a one-off increase in rents of 20%, the complete scrapping of supply subsidies and a simultaneous increase in demand subsidies. The *Nota Volkshuisvesting* also tried to offer a solution to the housing shortage and to create a degree of continuity in housing construction. The government announced a multi-year programme based on a rolling four-year plan; this programme was intended to lead to the construction of 550,000 dwellings.

Adriaansens and Priemus (1986: 15) have argued that the government failed to realize that there was something unnatural about such feverish levels of housing production. The result was that Udink's successor, Gruijters, was swept along in a unprecedented fall in housing production. The number of housing completions fell by more than 25,000 in one year, and unemployment reached unprecedented levels (in 1975 55,000 construction workers were unemployed).

The *Nota Volkshuisvesting* caused a storm of protest and, according to van der

Schaar (1987: 130), served to crystallize opposition to policies of rent harmonization and deregulation. The policy actually implemented by Udink was in essence a continuation of that followed earlier by Bogaers and Schut.

In accordance with the principles outlined in the 1972 *Nota Volkshuisvesting* the Christian Democratic Party electoral manifesto of that year advocated the gradual introduction of policies to promote rent harmonization and deregulation, a return to a system of cost-price rents, and the targeting of subsidies on the least well-off. The manifesto of the PvdA had a completely different set of objectives: the scrapping of rent harmonization and rent deregulation policies, an increase in rents of at most 6%, in line with inflation, and the continuation of supply and demand subsidies. Rents for new housing were to be set in accordance with those of the existing housing stock and not the other way round.

After a long period of attempting to form a cabinet a coalition government was eventually appointed, headed by the Labour Prime Minister Den Uyl. A number of Christian Democrats were also given cabinet positions, and the confessional parties held most of the posts in government. Gruijters, a member of D'66 - the Liberal Party - was appointed Minister for Housing; the two Ministers of State (van Dam and Schaefer) at the Ministry of Housing were members of the PvdA. These ministers were responsible for the important *Nota Huur- en Subsidiebeleid* (White Paper on Rent and Subsidy Policy) published in 1974. It was not until 1988 that this wide-ranging housing policy document was superseded; in 1988 the *Nota Volkshuisvesting in de Jaren Negentig* (White Paper on Housing in the 1990s) was published.

The *Nota Huur- en Subsidiebeleid* was formulated by liberal and socialist ministers in the government and reflected their view of the capacity of governments to better society, and, reflecting too the spirit of the 1970s, it envisaged increasing involvement by central government in many aspects of social and economic life. The general thrust of government policy should be to ensure the fairer distribution of authority, learning, and income. Making decent housing available to low-income groups was a general aim of housing policy. More specifically, a number of arguments were put forward to justify the desirability of government intervention in housing.

Firstly, housing was conceived of as a "merit good". The government believed that people would tend to underestimate the importance of good quality housing and would sooner spend their money on consumer goods. Secondly, positive external effects were attached to the provision of decent housing. In addition to the quality of the dwelling itself the quality of the environment was also an issue here. So too was the scope for individual self-development. The third motive for government intervention in housing concerned improving the quality of development. In the case of housing this meant that, given the long life-span of housing, housing construction should respond to the growth in prosperity and the consequent demand for better quality housing. This argument was particularly relevant in the first half of the 1970s, when the economy was experiencing rapid rates of growth.

In accordance with the principles outlined above, after several years of debate

Table 3.10 The size of the owner-occupied sector, 1947-85

Year	1947	1956	1967	1971	1975	1981*	1985*
Proportion of total (%)	28	29	32	35	39	42	42
Number ('000s)	593	744	1112	1316	1693	2065	2197
Total housing stock ('000s)	2117	2547	3450	3729	4367	4941	5127

* Includes only inhabited dwellings, excludes second homes

Source: van der Schaar (1987: 308)

the government finally opted in the 1974 Nota Huur- en Subsidiebeleid for a hybrid system of supply and demand subsidies.

Supply subsidies were used to try and ensure that new non-profit rented housing remained within the reach of those on average incomes. The government's subsidy policy was broader than this however. Subsidies were also provided to improve the residential environment and to increase the range of choice available to all households, including those on low incomes. This latter aim required the provision of additional assistance through the use of demand subsidies; the result was the introduction in 1975 of the Beschikking Individuele Huursubsidie (a modified system of rent rebates). Under this scheme the rent rebate system was extended to include all rented housing with an annual rent lower than f 5000, and it was therefore fairly comprehensive in scope. No distinction was made by type of owner, nor by period of construction, and the choice of housing available to those eligible for rent rebates was significantly increased. Henceforth, those in receipt of social security were also to be covered by the scheme. The principle of the scheme was that a household renting a house should not have to pay more than a specified percentage of its income in rent. This percentage was higher in the case of higher incomes (rising from 10% in the case of those on minimum incomes to 17% for those on average incomes). Under the scheme, therefore, the more one earned the lower the level of subsidy one received (van der Schaar, 1987: 279).

The choice of a mixed subsidy system and the involvement of the government in assisting housing construction led to a rapid increase in expenditure on supply and demand subsidies during the period 1975-85, both because of high interest rates and because of the collapse of the owner-occupied sector (see Table 3.10). In addition to the growth in expenditure on subsidies, another striking phenomenon during the 1970s was the growth of the owner-occupied sector (see Table 3.10), which grew more rapidly than any other at this time. The owner-occupied sector grew especially between 1971 and 1981, from 35% to 42%. After 1981 growth suddenly ceased. In order to explain this spectacular and erratic development it is useful to consider the general development of the housing market (Priemus, 1989; Boelhouwer and Papa, 1989: 144). Priemus (1989: 6), van der Schaar (1987: 314), and Kersloot and Dieleman (1988) relate the expansion of the house purchase sector up to 1978 and the subsequent malaise to the following factors.

- The entry of a large group of young adults, part of the post-war baby-boom generation, into the housing market.

- The rise in real incomes and the expectations that incomes would continue to rise; this was particularly important in the period before the second oil crisis in 1979.
- The expansion of the owner-occupied sector during the first part of the 1970s can also be ascribed to an important extent to high levels of inflation. The real value of outstanding mortgage debt therefore fell considerably in this period. In combination with rising incomes this led, after initially high levels of housing costs, to a decline in the proportion of income spent on housing.
- The attraction of a secure investment in times of high inflation. Table 3.11 demonstrates that the most significant price increases occurred in 1976 and especially in 1977. This eventually led to a virtual doubling in house prices within a period of only four years.
- The easing of credit controls by the Nederlandsche Bank in 1972.

Adriaansens and Priemus (1986: 24) have argued that those private sector investors financing new housing construction, and who were already extremely sceptical about Udink's rent and subsidy policy, regarded the rent and subsidy policy outlined in 1974 as yet another unfavourable development. When the Beschikking Geldelijke Steun Huurwoningen was introduced in 1975 as part of the new rent rebate system, private sector landlords abandoned housing construction for new rented housing en masse. Because there was sufficient capital still around to finance mortgages,

Table 3.11 Changes in average house prices and nominal and real rates of interest, 1975-90

Year	Average prices (f '000s)	Inflation (%)	Real increase in value (%)	Nominal rate of interest (%)	Real rate of interest (%)
1975	102.6	10.2	-	9.3	-0.9
1976	131.9	8.8	+19.8	8.8	0.0
1977	184.2	6.4	+33.3	8.7	2.3
1978	198.8	4.1	+3.8	8.3	4.2
1979	187.3	4.2	-10.3	9.1	4.9
1980	171.4	6.5	-15.1	10.1	3.6
1981	153.5	6.7	-17.1	10.9	4.2
1982	138.1	5.7	-15.7	10.0	4.3
1983	142.1	2.7	+0.1	8.3	5.6
1984	139.6	3.2	-5.0	8.3	5.1
1985	140.1	2.3	-1.9	7.8	5.5
1986	147.2	0.3	+4.7	7.0	6.7
1987	153.5	-0.4	+4.7	7.0	7.4
1988	161.0	0.9	+4.0	6.9	6.0
1989	171.6	0.9	+5.7	7.6	6.7
1990a	174.5	2.6	-0.9	^a 9.0	6.4

Sources: NVM; CBS; Priemus (1989: 5)

a: as at September 1990

however, this contributed little initially (up to 1980) to a decline in levels of new housing construction.

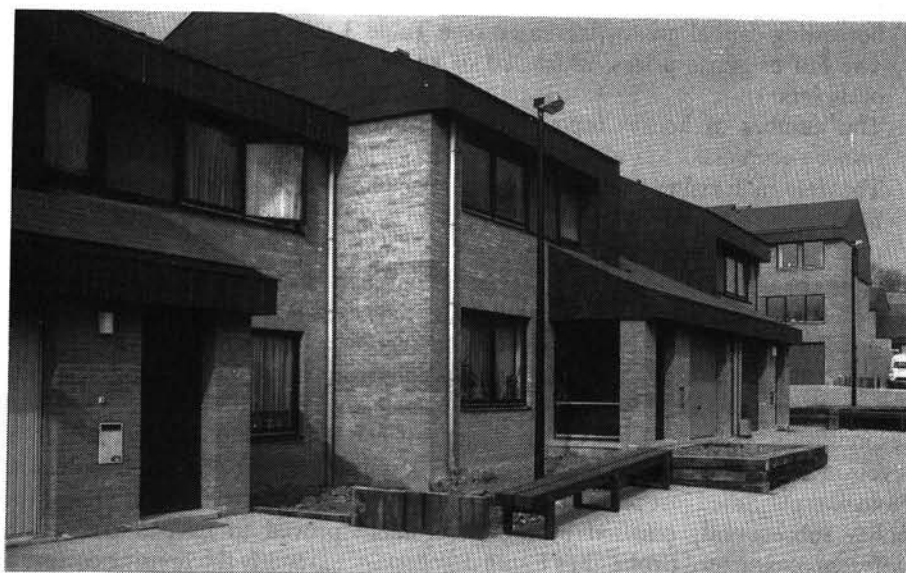
3.4.3 The period 1978-90: stagnation in the house purchase market and the continued involvement of the government in housing

After the fall of the Den Uyl government in 1977 over the question of land policy a new period in Dutch housing policy began. In the accord reached between the partners of the centre-right (CDA-VVD) coalition government in 1978 a number of new policy objectives were outlined. There was agreement to promote owner-occupation (by, among other things, selling Housing Act dwellings), to give greater emphasis to limiting the costs of housing development, and the possible abolition of supply subsidies was even discussed.

The new Minister of State for Housing, Brokx, was very much in favour of encouraging owner-occupation. He refused, partly in response to opposition pressure, to permit those living in Housing Act dwellings the right to buy those dwellings though. The government soon faced difficulties in realizing its most important policy objective, the promotion of owner-occupation, however, as a result of a number of external factors. After 1978, for instance, the owner-occupied sector stagnated after a period of significant expansion (see Boelhouwer and Papa, 1989: 144). At the beginning of the 1980s the owner-occupied sector collapsed completely, and average house prices fell from f 198,800 in 1978 to f 138,100 in 1982 (see Table 3.11). As in the case of the housing boom in the 1970s this malaise can also be explained in terms of changes in the housing market (see Priemus, 1989):

- Rising unemployment and insecurity. These tend to dissuade people from buying and induce both pessimistic expectations of future income and a lack of trust on the part of consumers.
- Rising nominal interest rates after 1978, as a result of which the cost of borrowing capital greatly increased (see Table 3.11).
- The fall in house prices, which led to an increase in market risks for owner-occupiers.
- The number of houses repossessed and the shock that this induced among owner-occupiers.
- The fall in housing mobility and the declining demand for owner-occupied housing.

Despite the fact that the construction policy outlined in the Tweede Nota Bouwbeleid (Second White Paper on Construction Policy) excluded giving an extensive role to government in regulating levels of construction, pressure from Parliament to stabilize output in the construction industry led to ministers accepting responsibility for precisely this. The Tweede Nota Bouwbeleid envisaged central government responsibility extending only to the projects it had itself commissioned. The total levels of construction given in the Nota were to have been at most indicative. The Nota was published just prior to the collapse of the house purchase market, and the policy subsequently pursued by the government proved to have a completely different character. Brokx thus found it necessary to modify the housing construc-



tion programme no less than five times within the space of a year (Adriaansens and Priemus, 1986: 17).

Parliamentary pressure on the government grew as a result of the collapse in investment in the housing stock, rising unemployment in the labour-intensive unregulated sector (where the number of construction workers out of work increased from almost 20,000 in 1979 to 100,000 in 1982), rising construction costs, growing housing shortages (partly as a result of the decline in housing construction in the 1970s), and because new construction was becoming increasingly unaffordable for those on low incomes. As a result of the policies adopted by the government the number of new dwellings constructed in the rented sector increased substantially.

The savings necessitated as part of a general policy of retrenchment (outlined in the memorandum Bestek 1981) were to be realized by increasing housing costs, particularly among tenants (through higher rents, a greater degree of rent harmonization, and increased savings in the cost of rent rebates) (van der Schaar, 1987: 235). Under Bestek 1981 (which appeared in the summer of 1979) f 390 million was to have been cut from the housing budget. To achieve these savings fewer Housing Act and grant-assisted dwellings were to be built in the owner-occupied sector. The emphasis was to be put on enabling people to move up the housing ladder by building housing for owner-occupation, and the Housing Act programme was reduced by 2500. Parliament opposed these proposals and required an increase of 3000 in the Housing Act programme. By threatening to tender their resignations the ministers at the Ministry of Housing were able to persuade the cabinet that, given the altered market situation, it was necessary to depart from the retrenchment proposals laid out in Bestek 1981.

Van der Schaar (1987: 236-239) has argued that this departure from the policy outlined in Bestek 1981 was in fact the first in a long series of modifications to the housing construction programme, and that it marked a transformation in the relationship between housing constructed for the rented sector and that for owner-occupation. Whereas in 1978 the housing programme had aimed to provide 32,000 subsidized rented homes and 74,000 owner-occupied dwellings, at the end of 1981 these figures were almost exactly reversed, at 73,000 and 34,000 respectively. In order to preserve a degree of continuity in the construction programme, from 1979 the construction of rented housing once again became a prominent feature of government policy, and because of increases in interest rates high levels of supply subsidies were provided.

As noted above, continued support for housing construction and the subsidizing of grant-assisted construction for the owner-occupied sector were among the most important points of contention between Parliament and the government. The result was, among other things, the introduction in April 1979 of a new system of grants for homes constructed in the owner-occupied sector; this increased ease of access to the owner-occupied sector and later led to an increase in levels of grants. Thus the limits to construction costs and the price of existing dwellings for which the government was prepared to provide a local authority guarantee were increased. With the introduction of this new scheme the grant scheme introduced in 1975

(which included assistance to enable those on lower incomes to buy homes) was scrapped. The new grant scheme made a distinction between two sectors, A and B. Those homes for which sector-A grants were available were intended for those on low-incomes; the level of the grant was dependent on their level of income. Under this scheme grants were only available for housing whose building costs were below a certain limit. The grants available for so-called sector-B housing were related only to the building costs of the house and were aimed at those on average and above-average incomes.

Van der Schaar (1987: 336) has suggested that the general thrust of government policy at the beginning of the 1980s was fairly simple. Stagnation in the property market was partly counteracted by increasing subsidies, particularly to those on low incomes. Because fewer households were moving up the housing ladder, and because it was difficult to encourage them to do so by increasing levels of new construction, stimulating demand for new housing by first-time buyers was an attractive solution. Given the state of the market the sector-A grant met with some success. These changes in the subsidy scheme for housing construction in the owner-occupied sector probably prevented the level of housing construction declining too much. While the construction of unsubsidized housing in the owner-occupied sector fell drastically, that in the subsidized sector remained at a reasonably constant level - though within this sector there was a fundamental switch away from the construction of sector-B housing to that of sector-A housing (the numbers of which more than doubled).

After an interim period of government under the premiership of van Agt, there followed a period with Lubbers as Prime Minister and Brokx once again as Minister of State for Housing. The policy programme published in 1983 contained a number of proposals to cut expenditure on housing. Again they related mainly to the rented sector, involving higher rents for new rented housing, reducing expenditure on rent rebates, and significant increases in rents for existing housing. Furthermore, the house building programme was cut to 102,000, and it was the non-profit rented sector particularly which took the brunt of these cuts.

Savings in the cost of the rent rebate scheme were dictated by the fact that the numbers in receipt of rent rebates had risen sharply, and also by the fact that those in receipt of rent rebates were being compensated for part of the decline in the level of their real incomes; the rent rebate scheme increasingly began to have an (unintended) effect on incomes policy. Despite these changes in the system the numbers in receipt of rent rebates continued to increase during the course of the 1980s, to 950,00 in July 1990. Adriaansens and Priemus (1986: 22) have argued that the result of the developments described here is that there remain those who support a reduction in, or even the scrapping of, supply and demand subsidies, but that in the 1980s both types of subsidies had greatly increased in importance and seem to have become an almost unassailable feature of Dutch housing policy.

The owner-occupied sector was given an important stimulus not so much by extra subsidies as by the absence of the financial burdens introduced in the rented sector. The promotion of owner-occupation was, once again, one of the objectives

of government policy. The new administration retained the mixed system of supply and demand subsidies. Within this broad policy framework, however, important changes were proposed in the building programme and the subsidy policy begun under van Agt. These involved in part a degree of decentralization of responsibility for housing towards local authorities (van der Schaar, 1987: 241). As a result of the decentralization of the new housing construction programme and the introduction of a system of standard costs in 1986 (the *normkosten systeem* (NKS)), many of the risks associated with financing housing construction were transferred from the government to local authorities and future residents. Despite this policy of decentralization, however, the government increased its control over the housing market. Through its ability to vary the level of additional costs and the level at which construction costs would be eligible for subsidies the government can in theory influence the quality and the location of housing construction without changing the regulations attached to the subsidy system.

After 1982 government policy was also strongly oriented towards privatization. Efforts to maintain levels of housing construction led to serious budgetary problems, necessitated a limit to the number of new subsidized dwellings (in particular in the non-profit rented sector), and an increase in the costs of housing. The accord reached by Lubbers' first administration in 1982 involved supporting the promotion of owner-occupation, and a separate policy document relating to this was presented to Parliament in September 1983 as part of the Budget. Van der Schaar (1987: 338) has suggested that this was the first such policy document devoted to promoting owner-occupation. Its most important section concerned revisions in the regulations governing grant-assisted house purchases. Further, it also examined issues related to the sale of rented housing, the tax treatment of owner-occupation, alternative forms of housing management, and the promotion of cheaper building methods. The report proposed no modifications in the tax treatment of owner-occupation (see Haffner, 1990). New forms of housing management were explicitly regarded as something for consideration by local authorities and not something that the government was required actively to promote. The sale of Housing Act dwellings was simplified and the need for government approval dispensed with. This aspect was further considered in a circular issued in 1984. In this circular it was left to local authorities to consider whether Housing Act dwellings should be transferred to other housing sectors. Those supporting the sale of Housing Act dwellings regarded the policy document and the circular as regressive, while the housing associations argued that they marked a departure from the disastrous policies pursued hitherto by the government. These responses can be explained in part by the expectations which the 1982 accord had engendered (Boelhhouwer, 1988: 32).

The changes in the subsidy system for grant-assisted house purchase entailed no additional stimulus compared with the previous system. The promotion of owner-occupation among low-income groups particularly was given a somewhat lower priority. This reflected the changed situation during the mid-1980s. Expectations of future real earnings were uncertain, and as a result the risks associated with house purchase for these groups were much greater. Moreover, providing an additional

stimulus to owner-occupation would have led to too much competition with existing owner-occupiers.

In conclusion, van der Schaar (1987: 238) has noted with respect to housing policy in the Netherlands during the 1970s and 1980s that it is striking to what extent political rhetoric was thwarted by developments in the housing market. The aim of the three progressive parties in government in 1973 was the construction of many cheap rented dwellings. In practice the results of government policy were quite different; it was the owner-occupied sector which prospered during this period. On the other hand, the Minister of State for Housing, Brokx, initially introduced a rather liberal programme of housing reform, aiming to promote owner-occupation and housing mobility. In the event he was forced to carry out a policy quite at odds with his original intentions.

3.5 Housing Policy in the 1990s

There has been hardly any major change of course in Dutch housing policy during the last few decades, in contrast to most of the other countries (the exception being Sweden) studied in this report. Central government expenditure on housing has grown continually, the subsidized housing construction programme has continued to be maintained at an extremely high level, and expenditure on rent rebates has grown explosively (see Table 3.12).

It seemed likely after the presentation of the *Nota Volkshuisvesting in de Jaren Negentig* (White Paper on Housing in the 1990s), which first appeared as a discussion document in 1988 and later in 1989 as a set of definitive policy proposals, that changes in housing policy would be introduced in the Netherlands. This *Nota* was the responsibility of the new Secretary of State for Housing, Heerma. Like his predecessor, Brokx, he is a member of the CDA. Brokx's replacement as Secretary of State was prompted by the Christian Democrats as a result of a parliamentary investigation into allegations of fraud concerning construction grants. It was deemed undesirable that a member of the government whose conduct was the subject of a parliamentary inquiry should remain in office. Heerma was quick to introduce changes in housing policy, and within two years a new comprehensive discussion document outlining housing policy for the 1990s had been presented. The last comprehensive policy White Paper was that published in 1974, the *Nota Huur- en Subsidiebeleid* discussed earlier.

After incorporating the comments of a number of important advisory bodies definitive proposals were presented to Parliament in April 1989. The crisis over the issue of limiting the level of tax relief on travel expenses (one of the methods proposed to help defray the cost of the government's environmental policy) led to parliamentary consideration of the report being postponed until the spring of 1990. In the meantime in November 1989 a new CDA/PvdA coalition government came to power in which Heerma was once again Secretary of State for Housing. This change of government did not lead to any major revision in the policies advocated in the White Paper. Provisions were made to permit a higher percentage of the

rentable value of a property to be classed as income, and the housing construction programme in the non-profit sector was also expanded somewhat.

In its recent (February 1991) interim budget (the so-called "tussenbalans") the government presented new proposals for cutting public expenditure; cuts in the housing budget were proposed in order to cover the cost of unfavourable developments in housing (particularly the increase in the cost of supply subsidies). The interim budget was considered necessary because of changes in interest rates and because of external developments, as a result of which greater control over expenditure was deemed imperative. The government proposed to reduce public expenditure by f 17 billion over the period 1991-94 (through a combination of cuts in expenditure and increased taxes); of this, around f 1.4 billion is required to come from the housing budget.

Despite the political crisis in 1989, as a result of the appearance of the *Nota Volkshuisvesting in de Jaren Negentig* there has been extensive discussion concerning the principles that should underlie housing policy in the 1990s and the form that policy should take. Such a discussion, in which particular consideration is given to the functions and responsibilities of the government, is almost unique in Europe. Only in Sweden has there been similar reflection on the role of the government in housing (for example in the discussion concerning the neutral treatment of different housing market sectors; see Chapter 9).

The reasons given in the *Nota Volkshuisvesting in de Jaren Negentig* for government involvement in housing were much more modest than those given in the 1974 *Nota Huur- en Subsidiebeleid*. The most important aim of housing policy was now to be to permit the better functioning of the housing market. This was considered necessary because of certain features which characterized the market. In addition to improving the workings of the housing market a number of other reasons were put forward to justify government involvement in housing: ensuring the satisfactory quality of the housing being offered, ensuring access to affordable housing of sufficient quality by low-income groups, the effects of factors external to the housing market, and the need to ensure stability in the market and in the level of housing construction (the latter, however, with much reservation).

In specifying the role of government in housing, a role which has recently been enshrined in the constitution, a distinction was made in the *Nota Volkshuisvesting in de Jaren Negentig* between planning aims and regulatory aims. The principle behind housing planning is that ensuring adequate housing is in the first instance the responsibility of residents and of others involved in the market. The key concepts here are deregulation, decentralization, and self-reliance. Apart from this, no fundamental change was implied in the course of government housing policy compared with that followed in previous years; many separate regulations had already been simplified and decentralized. These principles also determine the details of the regulatory function of government, as part of which the following four priorities were proposed:

- ensuring good and affordable housing for the lower paid,
- promoting favourable residential and environmental conditions,

Table 3.12 Expenditure on housing, 1970-87 (in f million, at current prices)

Year	Supply subsidies rent purchase	Demand subsidies	Urban renewal urbanization	Other	Total	Housing Act loans	General total
1970	275	55	0	100	20	450	1790
1975	980	280	235	395	185	2075	2810
1980	1810	430	965	805	375	4385	4435
1982	1840	570	1425	1210	465	5510	5215
1985	4050	990	1445	1810	740	9035	5355
1987	5170	1020	1665	1125	545	9525	4590
							14115

Source: MVRM (1989: 92)

- promoting owner-occupation,
- promoting experimentation, innovation and (the transmission of) knowledge.

Clearly these different principles have important consequences for aspects of housing policy. In this respect it is important to note that in the *Nota Volkshuisvesting in de Jaren Negentig* the relationship between the policy motives and the housing instruments just discussed is not always so clear (see Priemus, 1988; Tamerus and Bos 1989; Boelhouwer and Priemus, 1990). This can partly be explained by the fact that after a time many instruments begin to take on a life of their own, and the original objectives which inspired them are largely forgotten.

In the rest of this section we shall consider a number of specific instruments of housing policy. We shall explain firstly why the government opted for a mixed subsidy system. It is here that the principles which underlie government involvement are clearest. We then consider a new element in the *Nota Volkshuisvesting in de Jaren Negentig*, the attempt to limit distortions in the distribution of housing, after which we conclude with a consideration of proposals for promoting owner-occupation.

Partly on account of the choice of a mixed system of supply and demand subsidies in 1974 and as a result of a significant degree of government intervention after the collapse of the house purchase market in 1979, by the end of the 1980s supply subsidies formed the most important element of the housing budget (Table 3.12).

One important problem associated with the housing budget is that the level of expenditure is determined to a considerable extent by obligations incurred in the past (see Klunder, 1988, and Brouwer, 1988). These obligations take the form primarily of long-term annual subsidies for rented and owner-occupied housing. In the case of non-profit rented housing constructed after 1975 subsidies lasting as long as fifty years have been granted. The consequence of this was that by 1988 around 60% of total expenditure on housing consisted of payments resulting from obligations incurred in the past. Only around 40% of the housing budget was available for rent rebates, urban renewal and urbanization programmes, and for subsidizing new construction and housing improvement. Table 3.12 gives only a partial account, however, of total expenditure on housing. A more complete picture

Table 3.13 Income from taxes levied, and the cost of tax relief, 1975-87 (in f million, at current prices)

Year	Tax relief on mortgage interest	Tax on rentable value of property	Stamp duty	Sales tax
1975	3343	719	-	-
1977	5628	1255	540	2462
1979	8564	1704	-	2788
1981	11002	1695	520	3070
1983	12130	1862	620	2989
1987	13000	1800	850	3700

Source: MVROM (1989: 94)

requires a consideration of the effects of the tax system (Table 3.13). In contrast to many other countries in Western Europe there is no limit to the level of mortgage interest tax relief in the Netherlands (see Haffner, 1990). Those home owners buying existing properties are required to pay a one-off 6% stamp duty however. Furthermore, every year home owners have to include a percentage of the notional rentable value of their property as part of their income. This percentage was increased at the beginning of 1990 to around 1.8% of the value of the occupied property. It is expected that this rate will be increased further during the course of the 1990s. In December 1990 a government commission proposed that the rate should be increased annually by 0.25% (and rents by between 5% and 7% rather than 3%). This was intended to help reduce the budget deficit expected in the period 1991-94.

These proposals were largely adopted by the government in its interim budget published in February 1991. As a result the proportion of the rentable value of a property to be regarded as income will increase annually by 0.25% to reach a level of 3.3% in 1994. This increase is partly prompted by the fact that annual rent increases of 5.5% (instead of the original 3%) have been proposed. These measures entailed a financial sacrifice from both tenants and owner-occupiers.

In 1987 the loss of income to the exchequer due to mortgage interest tax relief amounted to around f 5.85 billion. In contrast to this the level of receipts from taxing the rentable value of property was around f 720 million, and the receipts from stamp duty f 850 million. When the supply subsidies to the house purchase sector are included the total value of supply and demand subsidies and the cost of tax exemptions is around f 5.3 billion in the case of the house purchase sector and f 6.8 billion in the case of the rented sector. We should take into account here the fact that in 1987 57% of the housing stock consisted of rented housing and that indirect subsidies to the house purchase sector mostly benefit higher-income groups, while rent rebates especially are received by those on low incomes.

From the figures it would appear that public expenditure on housing has significantly increased during the past few years. This is despite the fact that there has been a review of the size of the public sector and that significant savings have been made in a number of subsidy schemes.

Table 3.14 Projected levels of new housing completion 1989-99 ('000s)

Year	Non-profit sector rented	purchase	Other subsidized investors	other	Unsubsidized	Total
1989	29.5	21.0	5.0	15.0	24.0	94.5
1990	25.0	21.0	5.0	10.0	29.0	90.0
1991	21.5	21.0	5.0	10.0	29.0	86.5
1992	18.5	21.0	5.0	5.0	35.0	84.5
1993	16.5	21.0	5.0	5.0	36.0	83.5
1994		36.0		8.0	37.0	81.0
1995		36.0		6.0	38.0	80.0
1996		36.0		5.0	39.0	80.0
1997		36.0		4.0	40.0	80.0
1998		36.0		4.0	40.0	80.0
1999		36.0		4.0	40.0	80.0

Source: MVRM (1989: 164)

From the point of view of future rent and subsidy policy the Nota Volkshuisvesting in de Jaren Negentig states a clear preference for a subsidy policy designed to redistribute housing, and this implies a gradual decline in the level of supply subsidies. This aspect of government policy is revealed clearly in the housing construction programme, which anticipates a substantial decline in subsidized housing construction (see Table 3.14). Thus the proportion of total new housing construction not eligible for government subsidies is expected to increase from around 25% in 1989 to around 50% in 1997. Furthermore, under the new accord reached in November 1989 the house building programme in the non-profit sector was to have been increased by an extra 5000 homes per year; in 1990 it was once again reduced in an effort to cut government expenditure.

We noted earlier that the cost of obligations incurred in the past constitute a major item in current housing expenditure. In order to reduce future expenditure on supply subsidies further the Nota Volkshuisvesting in de Jaren Negentig proposed to introduce yearly increases in rents, to limit the period over which new subsidies would be paid, to reduce the cost of past obligations by selling non-profit rented housing, and to ensure stability in the long-term cost of subsidies granted by borrowing at fixed rates of interest.

In order that rent levels should more accurately reflect the real cost of providing housing by the second half of the 1990s the existing principle that rents be increased by 3% a year was modified so that the increase in rents was to be at least 1% greater than the rate of inflation. The increase in initial rents was to be at least 1% to 2% above that in housing construction costs. The Minister of State assumed that the reduction in purchasing power that would result from this policy would in general be compensated for by economic growth and by protecting the value of rent rebates. Given the structural budget deficits facing the government, in its interim budget published in February 1991 it proposed to increase rents by 5.5% per annum over the course of the next few years, as a result of which the cost of supply subsidies would also decline.

As we have already mentioned, the Nota Volkshuisvesting in de Jaren Negentig supported a more market-oriented housing policy. It envisaged concrete government assistance being restricted primarily to low-income groups. An income threshold of f 30,000 per annum was suggested, a figure roughly equivalent to the level of average incomes in the Netherlands.

In the Nota Volkshuisvesting in de Jaren Negentig it was observed that to an important degree the distribution of the existing housing stock determines the extent of government obligations to provide financial assistance to secure acceptable housing for those groups targeted in its housing policy. In the Nota much consideration was therefore given to the degree of "imbalance" in the distribution of housing; what proportion of households with a relatively high income live in cheap rented accommodation, and to what extent are low-income groups living in expensive rented housing? Analyses of the distribution of the housing stock suggest that 50% of all rented housing costing f 600 per month or more was rented by those on less than average incomes, while 31% of all rented housing costing less than f 450 per month was rented by households on above average incomes. Given the principles underlying the government's housing policy this situation presents a major problem. Supply subsidies are effectively being received by households which, given their level of income, do not require them, while on the other hand high levels of demand subsidies are being paid to meet the housing costs of those on lower incomes living in relatively expensive rented housing. The marked integration of different housing categories in the Netherlands is considered an advantage by some authors however (Deben, 1989, among others). The sort of ghettoization characteristic of some British cities, for example, hardly ever occurs in the Netherlands. The fact that high-income groups want to rent housing in the non-profit sector is an indication, Deben argues, of the fact that broad groups within society appreciate the high standard of non-profit rented housing.

The Nota Volkshuisvesting in de Jaren Negentig laid considerable emphasis on counteracting the imbalance in the distribution of housing. It proposed to reduce the number of those households on higher incomes living in relatively cheap rented housing from 770,000 in 1989 to 550,000 by the year 2000, an annual decrease over the period 1990-2000 of 20,000 households.

In order to reach this target the present method of allocating housing could be made more efficient, and the relationship between income and rent particularly deserves much attention. In addition to this more general measure, over which the government can exercise little influence, the Nota also proposed to introduce two other tougher measures:

- to permit those in non-profit rented housing to make rent agreements for a fixed period (currently rent agreements are valid for an indefinite length of time), and
- to allocate all or certain parts of the non-profit rented housing stock on a temporary basis.

These proposals prompted a protest from organizations and individuals within and outside housing. In order to go some way to meeting this criticism the Minister of State proposed in the definitive policy White Paper that temporary rent agreements would only be applicable to new rented housing and that this measure would not



be introduced until the middle of the 1990s, and only then if the number of well-off households living in relatively cheap housing had not fallen sufficiently. This revision was one of the few differences between the proposals made in 1988 and the definitive White Paper which appeared in 1989.

The government made a conscious decision not to introduce the sort of levy on housing mobility and tax on rents which are a feature of housing policy in West Germany and Belgium. The *Nota Volkshuisvesting in de Jaren Negentig* claimed that these would lead to too much centralization and detailed regulation, completely contrary to the government's attempts to strengthen the influence of the market on housing and to decentralize housing policy.

As already remarked, the *Nota Volkshuisvesting in de Jaren Negentig* contained measures aimed at expanding the size of the owner-occupied sector (from its current 44% to between 50% and 55% by the year 2000). The principle behind the policy is that there should be a balanced approach to the rented and the owner-occupied sector, and that consumer preferences should be the criterion for determining the size and composition of these sectors. The government assumed in this that there would be steady economic growth during the 1990s and - connected with this - rapidly rising demand for home ownership. Given the large proportion of new housing being built for the owner-occupied sector (c. 75%) and the fact that a proportion of the rented sector was to be sold the size of the owner-occupied sector was expected to increase substantially. At the same time, the *Nota* argued that government assistance should be directed more to particular target groups (those on average and less than average incomes).

A new element in Dutch housing policy is the proposal to sell non-profit rented housing to sitting tenants as a way of increasing owner-occupation (Boelhouwer and van Weesep, 1988; van Weesep, 1986). This plan has led to some controversy, though the comparisons drawn with the British experience are largely lame. Firstly, in the Netherlands there is no question as yet of a right to buy: housing associations will decide themselves whether or not to sell part of their housing stock. Moreover, it is not envisaged that the proportions involved will be anything like those in Britain.

After the presentation of the *Nota Volkshuisvesting in de Jaren Negentig*, at the beginning of 1991 substantial savings (of f 1.4 billion over a period of four years) were made in the housing budget to meet the savings in public expenditure considered necessary. The most important savings concern above-inflation increases in rents (leading to a reduction in supply subsidies), the discontinuation of subsidies for minor housing improvements, the freezing of rent rebate levels (which means in practice decreasing the scope of the scheme), and greater control over expenditure on housing for the disabled.

The level of public expenditure on housing, which is high in comparison with expenditure levels in other West-European countries, has become the subject of increasing discussion. Housing now has to compete more fiercely with other issues facing the government, the environment and transport for instance, which clearly have a higher political priority.



4.1 Administrative and legal systems

The system of public administration in Belgium has changed considerably since 1970 as a consequence of regionalization. Powers have been or are increasingly being delegated by central government to the regional or community level. This has resulted in a complicated structure of public administration. In addition to there being three levels of government (as in the Netherlands), the national, provincial and municipal, since the constitutional reforms of 1970 there have been, in principle, three communities (the French-speaking, the Flemish-speaking and the German-speaking communities) and three regions (Flanders, Wallonia and the Brussels Region).

The responsibilities and powers of the various communities and regions were laid down in the constitutional reforms passed in 1980. In that year official recognition was given to the regions of Flanders and Wallonia. The Brussels Region was officially recognized in 1988.

The communities and regions each have their own elected councils and executive bodies, and formally, at least, they have sovereign power in certain fields. In practice, however, account is taken of national policy and there is a degree of consistency in the policies of central and regional government. Further, a number of those appointed to government have positions in both central and regional government (Mastop et al., 1989: 33) and this too helps ensure a degree of continuity in policy.

The communities are mainly responsible for cultural and social affairs (health, education), while the regions are responsible for matters such as planning policy, the environment, housing, land policy, energy and employment policy (Mastop et al., 1989: 32-33; United Nations, 1987; United Nations, 1989). The councils and their executive bodies have, in addition to their specific functions and powers, the authority to issue decrees, and these have the force of law (Mastop et al., 1989: 33).

Communities and regions do not coincide geographically; the Flemings and the Dutch-speaking inhabitants of Brussels for instance are considered to be part of the Flemish community, and the inhabitants of Wallonia, the German-

speaking community and the French-speaking inhabitants of the Brussels Region are regarded as part of the French-speaking community.

In Flanders the departments responsible for administration in the community and the region have been combined. There is at present only one ministry: the Ministry of Flemish Affairs. This ministry has six departments. The Department of Planning and Housing is part of the Department of the Environment and Infrastructure.

In Wallonia the Division du Logement is responsible for housing policy. This department is part of the Direction Générale de l'Aménagement du Territoire et du Logement of the Ministère de la Région Wallonne.

The regionalization of housing policy means that each region, depending on its specific character, can shape housing policy to some extent. Not all powers in the field of housing have been devolved on the regions however. National government continues to be responsible for rent legislation in the private rented sector and for tax legislation, though the assessing of and granting exemptions from the property tax is left to the regions (Haffner, 1990). The regional authorities are responsible for promoting new housing construction, housing improvements and slum clearance. With regard to social housing, the regions determine the financing, and the conditions related to the level of grants and subsidies, in addition to the level of rents.

As a result of the devolution of responsibility for housing, a number of national institutions were abolished and/or replaced by regional institutions in 1984. The most important of these quasi-governmental institutions are discussed below. We shall consider the origins of these institutions in more detail in section 4.4.1.

The Nationale Maatschappij voor de Huisvesting (NMH) (National Society for Housing) was founded in 1919 as the Nationale Maatschappij voor Goedkope Woningen en Woonvertrekken (NMGWW) (National Society for Cheap Dwellings). The NMGWW changed its name to the NMH in 1956. The NMH was the most important institution in the non-profit rented housing sector. It had a number of important functions that it was legally obliged to pursue; these included promoting the establishment of local building companies, the provision of loans to these companies, and constructing housing if these building companies failed to do so. The rented housing constructed by the NMH could be sold to sitting tenants. The NMH was also empowered to purchase land for building. It could not act independently in this, however, and was required to submit details of its proposed land-purchase programmes to the minister responsible for housing. The registered local building companies (limited liability companies) operate rather autonomously however. The boards of these companies are composed of representatives of the state, the province, the municipality, but also of private shareholders (Gerrichhauzen and Van Giessen, 1984: 306).

In 1984 it was announced that the NMH would be restructured as part of the process of devolution. In the same year the Brusselse Gewestelijke Huisvestingsmaatschappij (Brussels Regional Housing Society) and the Waalse

Regionale Maatschappij voor de Huisvesting (Walloon Regional Housing Society) were established. In 1988 the Vlaamse Huisvestingsmaatschappij (Flemish Housing Society) was founded. The transfer of functions, assets, powers and responsibilities, and staff from the NMH to the regional societies took place during 1990. At the end of 1990 the NMH, along with the Nationale Land Maatschappij (NLM) (National Land Society), was abolished.

The NLM was founded during the 1930s as the Nationale Maatschappij voor de Kleine Landeigendom (NMKL) (National Society for Small Land Ownership). It too changed its name in 1956. The NLM can be viewed as the rural counterpart to the NMH. Until recently the NLM carried out its functions, the improvement of housing conditions in rural areas, by building new social housing provided with a relatively large area of land on which the occupants could grow vegetables. The dwellings were sold to the occupants, who were given loans at low rates of interest. The NLM had a similar relationship to local building companies as the NMH. In addition to housing construction, the NLM was also involved in land reallocation projects in rural agricultural areas (Goossens, 1988: 223).

In Wallonia the regional branches of the NMH and the NLM merged when the Waalse Regionale Maatschappij voor de Huisvesting was set up in 1984. The NLM was not active in the Brussels Region because of the urban character of the area. There has been no merger between the Flemish part of the NLM and the NMH. The Vlaamse Huisvestingsmaatschappij and the Vlaamse Landmaatschappij were set up in December 1988. The decree under which these were established stipulated that all new housing in the region of Flanders is to be the sole responsibility of the Vlaamse Huisvestingsmaatschappij. The Vlaamse Landmaatschappij is responsible for tasks related to land use and land consolidation, including residential functions and the organization and development of agriculture and firms related to agriculture (Nationale Maatschappij voor de Huisvesting, 1988: 21).

The Nationaal Instituut voor de Huisvesting (NIH) (National Institute for Housing) was founded in 1956 as an independent public institution having a legal status. It conducted research and advised the government on housing policy (Gerrichhauzen and Van Giessen, 1984: 306). Between 1961 and 1983 the institute carried out three studies into housing quality, and estimates were made of the level of housing needs. The NIH was funded by a contribution equal to one per cent of the housing investments made by the NMH and the NLM in the preceding year. This institute, too, was abolished in 1984 as part of the process of devolution. By 1987 the staff of the NIH had been reallocated to the Flemish and the Walloon regions and its functions taken over by the national Ministerie van Openbare Werken (Ministry of Public Works) and the two regions (Belgisch Staatsblad, 1987: 29322).

The Woningfonds van der Bond der Kroostrijke Gezinnen van België (WBKGB) (Housing Fund of the Association of Large Families in Belgium) was officially approved and registered in 1928; it aims particularly to address the housing problems of large families. Loans on favourable terms are granted to

make it possible for large families to purchase existing or new housing for instance. The WBKGB, meanwhile, has been divided into three regional housing funds. The original national fund is involved in activities stemming from the period before regionalization. According to Goossens (1988: 223-224), the Vlaamse Woningfonds (Flemish Housing Fund) has developed into the most comprehensive housing institution. The emphasis of its activities has switched from providing finance to urban renewal and housing improvement projects.

4.2 Environmental factors and environmental planning

Until 1962 there was hardly any planning system in Belgium. In principle, each landowner could do whatever he or she wanted to with their land (Goossens, 1988: 237). According to Goossens (1986), environmental planning in Belgium has taken second place to measures to promote owner-occupation among large numbers of the population. A considerable emphasis was therefore laid on individual private initiatives. The result has been ribbon development and a considerable degree of suburbanization.

Since 1962, however, Belgium has, like the Netherlands, had a system of planning legislation: the *Wet houdende organisaties van de ruimtelijke ordening en de stedenbouw*. This act regulates the various organizations involved in planning and defines their powers. It distinguishes between four kinds of plans: the local plan, the district plan, general and specific plans. All of them are legally binding and subject to approval by the executive. In so far as lower-level plans contravene higher-level plans approved later, the controversial elements in lower-level plans automatically cease to have legal force. Subsequent changes may be permitted, subject to approval (Mastop et al., 1989: 33). The act also provided for a system of building and land allocation permits and introduced a set of regulations governing these.

There have been certain regional variations in the precise form of this legislation since 1970. In the Brussels Region the act is still in force and no changes have been made. In the Walloon and the Flemish regions a number of amendments have been made. According to Mastop et al. (1989: 34), the 1962 act has, formally at least, changed little.

Of the four types of plan distinguished in the act it is the district plan that constitutes the real planning framework. Local plans have never been drawn up and, argues Desmet (1989: 189), they never will be. The current district plans relate to areas defined immediately after the act entered into force. These areas are not related to provincial boundaries. In total forty-eight districts were designated, of which twenty-five were in Flanders. The plans were drawn up and introduced during the period 1966-80, before responsibility for these plans was delegated to the regions. In general they are rather detailed and almost entirely concerned with land use. To a large extent the regulations contained in the various plans are fairly standard.

At the municipal level there are two types of plan: general plans (termed

apa), which relate to the whole municipality, and specific plans (bpa), relating only to specific parts of the municipality. These too are land-use plans. The bpa may also include certain requirements relating to the appearance of buildings.

During the period 1962-76 only thirty-one apa were drawn up in Flanders. Since then their function has largely been subsumed by district plans. Although intended to be supplementary to the apa and the district plans, there has been a fall in the number of bpa drawn up (Mastop et al., 1989: 35). Desmet (1989: 199) has pointed out in this respect that specific plans can now only be drawn up if it is necessary specifically to deviate from district plans and that it is no longer possible to use the bpa to determine building development in a small area.

The present system of planning policy in Flanders seems, according to Mastop et al. (1989: 35), to involve partial revisions of district plans and the use of incidental bpa. These enable local problems to be addressed, but within the general outline of planning policy. Consequently, the planning figures given in legislation seem in practice to function only as vehicles for planning policy. Moreover, in the course of time, a number of exceptional provisions have been introduced, as a result of which the co-ordinating function envisaged for these plans has been undermined. Since 28 June 1984, for instance, the construction of public works has been excluded from the district plan, unless the necessity for doing otherwise could be demonstrated. This decree also introduced measures to encourage ribbon development outside those areas specifically earmarked for housing.

The planning powers of the government of Flanders were established by the *Bijzondere Wet tot hervorming der instellingen* (Special Act to Reform the Institutions), introduced in August 1988. This act specifies the scope of environmental planning to include the following functions:

- urban development;
- co-ordinating municipal road-building policy;
- acquisition of land for industry and the provision of infrastructure;
- urban renewal;
- redevelopment of former commercial premises;
- land policy;
- protection of monuments and areas of outstanding natural beauty.

Desmet has argued that these seven elements, none of which is discussed any further in the act, do not constitute a logical and balanced set of functions (Desmet, 1989: 200), and he points out, for example, that environmental planning is not mentioned as a separate element in this list.

The agreement reached between the Christian People's Party (CVP), the Socialist Party (SP) and the People's Union (VU) members of the coalition government in February 1989 declared that "Environmental planning will be directed towards managing the environment in a way that can be justified in terms of planning and social considerations, and that takes into account all aspects of social and economic life. Consequently, planning policy will take full

account of ecological, infrastructural aims, the need to ensure mobility, and of the global planning of the environment".

It outlined a series of measures to achieve this:

- The district plans were to be made more effective by, among other things, the introduction of strict controls to enforce compliance with planning regulations and counteracting undesirable building. Bpa had to be consistent with district plans.
- The 1962 act was to be revised and given the status of a decree. The most important aims were to:
 - clarify the legal position;
 - decentralize planning and the execution of planning policy, with responsibility being given to regional, provincial and municipal government;
 - create new opportunities in the case of land and building policy in order to preserve open spaces by giving priority to redeveloping and improving existing developments.
- The Draft Structure Plan for Flanders was to be revised again in order to take into account changes in the priorities given to various activities and to improve the quality of the environment.
- In order to preserve open spaces as much as possible, the decree issued in June 1984 was to be reviewed.
- The Flemish government was to introduce legislative measures to enforce its policies on urban and village re-evaluation and was to pursue an integrated planning policy.
- Any developments for high-speed trains were to be part of an integral rail system and partly oriented towards providing better rail links within Flanders.
- Attempts were to be made to preserve the country's natural heritage, to take account of concern for areas of outstanding natural beauty in policies to conserve the natural environment, to ensure the most appropriate use of the land, taking into account too the needs and functions of the local community.
- In order to preserve the Green Belt around Brussels a strict policy was to be maintained to limit development in that area.

Desmet concluded that the system of integrated, co-ordinated planning in Flanders did not produce the desired results (Desmet, 1989: 202). Environmental planning is neither co-ordinated nor integrated. A plan concerning waste disposal has recently been agreed on, and an environmental policy plan will be introduced in the near future. There are also traffic plans, transport plans, infrastructure plans, and the Vlaamse Landmaatschappij is proposing to draw up land-use plans.

4.3 The organization of the housing market

4.3.1 Housing tenure

Since 1889, when the first housing act came into force in Belgium, one of the

main objectives of central government has been to stimulate owner-occupation. Consequently, the owner-occupied sector in Belgium is the largest sector in the housing market, accounting for 59% of the total housing stock in 1981 (see Table 4.1; it should be noted that the percentages given in Table 4.1 differ from those given in Chapter 2 on account of the fact that Table 4.1 only includes owner-occupied housing, and thus vacant houses (152,382 in 1981) and secondary residences (134,930) are not included). Within the rented sector, private rented housing predominates, accounting for 82% of all rented housing and 31% of the total housing stock. The social rented sector, which accounts for 7% of the total housing stock, is small, especially when compared with that in the Netherlands.

Of the three regions in Belgium, the housing stock is largest in Flanders. The number of owner-occupiers is also highest in Flanders. Apart from this, the differences between Flanders and Wallonia with respect to housing tenure are small. In the Brussels Region the situation is quite different. More than half the housing stock there is private-rented housing. De Decker (1990: 16) has estimated the size of the housing stock in Flanders according to tenure. His estimates are given in Table 4.2.

The relative size of the owner-occupied sector in Flanders remained almost constant throughout the period 1981-88. Within the rented sector, however, there was a shift from social rented to private rented housing. The proportion of total housing in the social rented sector fell from 6% to little more than 5%, whereas the private rented sector grew to around 29%.

According to Goossens (1982; 1986; 1988), the emphasis placed by the government on the role of private initiative and the promotion of owner-

Table 4.1 Housing stock by tenure and region, as at 31 March 1981

Region	Total	Owner-occupied	Rented sector		Unknown
			social	private	
Flanders					
N	1 961 481	1 275 638	110 829	561 477	13 537
%	100	65	6	28	1
Wallonia					
N	1 184 822	732 528	95 051	327 883	29 360
%	100	62	8	28	2
Brussels					
N	453 674	124 759	35 147	242 161	51 607
%	100	28	8	53	11
Belgium					
N	3 599 977	2 132 925	241 027	1 131 521	94 504
%	100	59	7	31	3

Source: Laurent and Jacques (1987: 10, 32)

Table 4.2 Housing stock in Flanders by tenure, as at 1 January 1988

Tenure	N	Percentage of total sector	Percentage of total stock
Owner-occupied	1 432 420	100	65.5
Rented sector	754 480	100	34.5
- social rented	114 572	15.2	5.2
- private rented	639 908	84.8	29.3
Total Flanders	2 186 900	-	100.0

Source: De Decker (1990: 16)

occupation (even among low-income groups) can be explained in terms of the Roman Catholic traditions prevalent in Belgium. In the social teaching of the Catholic Church, housing is considered vital for family life; a good (single-family) house, bought rather than rented, is thought to offer the best possibility for the development of family life and of the individual well-being of family members.

As a consequence of the dominant position of the CVP in Belgian political life, the promotion of owner-occupied housing became the most important objective of social housing policy. We shall consider this in greater detail in section 4.4 in the context of a review of housing policy in Belgium since 1945.

The owner-occupied sector is subsidized by the government in various ways. Those purchasing new dwellings or existing houses (owned by the NMH or the NLM), for example, are, under certain conditions, eligible for income-related subsidies. Further, in financing housing the regions may offer a guarantee (similar to the municipal guarantee in the Netherlands), dependent on the price of the dwelling, the income of the purchaser, the size of his or her family, and/or one may apply for low-interest loans from the NLM or the Housing Fund. Since regionalization, discrepancies have emerged between the three regions with regard to the way in which and the extent to which the owner-occupied sector is subsidized. Papa (1991) provides an extensive review of the various schemes. In addition to the subsidies provided by the regions, central government also provides tax rebates for owner-occupiers.

Table 4.3 The size of the owner-occupied sector in Belgium, 1947-81

Region	1947	1961	1970	1977	1981
Brussels	17.9	23.2	27.0	32.1	31.0
Flanders	41.5	55.5	59.9	65.9	65.5
Wallonia	43.3	52.4	57.0	63.6	63.4
Belgium	38.9	49.7	54.8	61.0	60.8

Source: Goossens (1988)

Table 4.3 illustrates the growth in the relative size of the owner-occupied sector in Belgium between 1947 and 1981. The marked increase in the size of the owner-occupied sector during the period 1947-61 was a result, among other things, of the fact that an important role had been given to that sector as part of attempts to ameliorate the post-war housing shortage. Up to 1960 no income limits were applied when giving grants to those purchasing homes.

Until 1977 the owner-occupied sector grew considerably. As a result of the economic recession at the end of the 1970s the owner-occupied sector stagnated. When one compares the size of the owner-occupied sector in Flanders in 1981 with the estimates of de Decker for 1988 (Table 4.2), it is clear that there has been no growth since 1977.

The private rented sector is the second largest sector in the housing market in Belgium and accounted for 31% of the total housing stock in 1981 and 82% of all rented housing. The private rented sector grew slightly in Flanders between 1981 and 1988.

The private rented sector is the responsibility of the (national) Minister of Justice; the government regards leases as a contract between landlord and tenant. This sector is to a great extent outside the direct sphere of housing policy therefore. Private landlords in the three regions may profit from the grant schemes available as part of the urban renewal (reconstruction and improvement) programme however.

The present rent legislation has been in force since 1983 and it was supplemented in 1985 by a number of temporary measures. These temporary measures aimed to limit rent increases between 1985 and 1987 and added a few requirements concerning the termination of rent agreements.

Before 1983 the so-called temporary rent acts guaranteed a broad degree of protection to all tenants, regardless of whether they had a lease or not. A landlord could give notice to quit only under strict conditions: these included the failure to observe the terms of the lease, misconduct on the part of the tenant, if the owner or a member of the owner's family wanted to occupy the dwelling, or if the owner wished to rebuild or to renovate the dwelling drastically.

Under present legislation these requirements are no longer included. Tenants currently are only protected if they have a written contract with their landlords. Where there is no such agreement it is sufficient for the landlord to give six months' notice in order to force tenants out. Tenants wanting to leave are required to give three months' notice.

This lack of protection for tenants weakens their position in cases for instance where they want repairs or improvements to be carried out that are the responsibility of the landlord. There are no legislative requirements concerning the quality, size or level of comfort of rented housing. Nor are there legislative restrictions on minimum or maximum rents. Rents may only be revised once a year, however. In cases where no rent increase has been stipulated, rents rise automatically in line with inflation. When a dwelling becomes vacant, the landlord can fix the rent at a new level. In the Brussels Region, particularly, this has led to large increases in rents (Deman i.e., 1989: 77-78).



The lack of regulations concerning the private rented sector has a number of unfavourable consequences for the tenant (de Decker, 1990: 18):

- there are no regulations governing the relationship between the quality and the cost of rented housing;
- there are no regulations relating the level of rent paid to the ability to pay; there is no system of housing benefit in Belgium for example;
- there is little protection for tenants.

The most vulnerable groups in the housing market, those households with the lowest incomes, are largely dependent on the private rented sector. They cannot afford to buy a house, and often the social rented sector is also beyond what they can afford; few social rented dwellings are being built, and the rents of newly-built social rented housing are too high for households on low incomes, while part of the existing stock of social rented housing is being sold to sitting tenants. It follows that low-income groups compete with one another for housing in the private rented sector (de Decker, 1990); this inevitably strengthens the position of the private landlord, enabling him or her to determine the terms of the lease and the level of rent. Moreover, landlords are not encouraged to carry out maintenance or improvements to their housing stock. The result is that the quality of private rented sector housing is relatively poor (Goossens, 1982; de Decker, 1990).

4.3.2 The social rented sector

The social rented sector is the most regulated of the housing sectors in Belgium. This sector, which accounts for seven per cent of total housing, does not have a broad function within the housing market; it is intended for housing those households with modest incomes. Social rented housing is built and managed by approved building societies. These building societies are limited companies. Their boards are composed of representatives of central government, the provinces and the municipalities, but also of representatives of private shareholders (Gerrichhauzen and van Giessen, 1984). The NMH (or its regional housing equivalents) finances the dwellings built by the building companies and it exercises a degree of supervision. The dwellings built by the approved building societies are primarily intended to be rented. They may also be sold to sitting tenants however. To be able to purchase the dwelling, the tenant may not already own another dwelling or have a usufruct. Depending on the income of the purchaser, the purchaser may be eligible for a grant. When a tenant meets the requirements laid down by the government, neither the NMH nor the building society can refuse to sell him or her the dwelling.

Table 4.4 presents details about the housing stock built by approved building companies. The 270 companies are actively engaged in housing developments in 511 municipalities containing 97% of the Belgian population (Nationale Maatschappij voor de Huisvesting, 1989: 10).

Most of the more than 251,000 social rented dwellings built are single-family houses. In the Brussels Region, however, most social rented housing consists of apartments. Of the 348,627 dwellings built by the building companies (including

Table 4.4 Housing built by approved building companies, by region, 1989

Region	Companies	Housing stock		Dwellings started in 1989	Total	Sold
		single-family	apartments			
Flanders	122	65 578	49 671	1 784	117 033	64 107
Brussels	36	5 142	31 544	192	36 878	4 235
Wallonia	112	56 939	42 329	99	99 367	27 007
Belgium	270	127 659	123 544	2 075	253 278	95 349

Source: Nationale Maatschappij voor de Huisvesting (1990)

2075 built in the course of 1989), 95,349 had been sold by the end of 1989. In the region of Flanders, in particular, a relatively large proportion of housing has been sold to sitting tenants.

Those households having an income above a specified limit are not eligible for social housing. Further, social housing rents are related to household income. There are differences between the regions in the way rents are determined. In broad terms, however, the method of calculating rents is comparable. Firstly, a basic rent per dwelling is calculated. This basic rent is based on a percentage of the current cost of the dwelling. The basic rent is then revised to take into account the level of household income and the number of children in the household by multiplying the basic rent by an income coefficient. Actual rents may not exceed a certain percentage of household income, nor the normal rentable value of the dwelling; nor may actual rents be less than fifty per cent of the basic rent. Furthermore, rents are periodically adjusted to take into account decreases or increases in household income. The housing societies themselves have to finance the difference between basic rents and actual rents (NEI, 1989). A tenant whose income subsequently exceeds the income threshold for eligibility for social housing may keep his or her dwelling. In Flanders, however, a rent agreement can be terminated if the income of the tenant exceeds the amount whereby the tenant would have to pay twice the level of basic rent.

Social rented housing is financed through the Housing Society. Until a few years ago a so-called system of pre-financing was employed. Under this system the Housing Society borrowed money on the capital market at market rates of interest. These loans were used to finance lending to approved building companies in the form of a low-interest sixty-six-year annuity. The difference between the market rate of interest and the interest charged to the building companies was subsidized by the government. As a result of this system, the debt burden grew and it became an important issue with regionalization. In order to solve these problems an amortization fund for loans for social housing was established on 3 July 1990.

In Wallonia and the Brussels Region this system of pre-financing has been abandoned and a system of annual budgetary finance is now used. In Flanders an experiment has been introduced in so-called housing shortage areas involving

an alternative system of financing in which, in addition to construction grants, there is also a system of rent rebates. The construction grant amounts to 265,000 Belgian francs per dwelling.

The rented dwellings may be built by the private sector but they are rented out by a public sector institution. The length of the lease is at least fifteen years and the maximum rent is 12,000 Belgian francs per month. The level of rent rebate is equal to the rent paid by the public institution, less the amount to be paid by the occupant; the maximum level of rent rebate is 5000 Belgian francs per month.

Goossens (1986: 6; 1988: 230) argues that the introduction of this alternative system of financing will result in the adequacy of financial returns on invested capital playing an increasingly important role within the social rented sector and that, consequently, the affordability of social housing for low-income groups might further decline in the future.

As is apparent from Table 4.5, there has been only a slight expansion in the social housing stock over the last few years. The table clearly shows that up to and including 1980 the number of social rented dwellings increased on average by 8,000 to 10,000 each year. At the same time, between 2000 and 3000 dwellings were sold each year. After 1981 the increase in the stock in rented housing fell markedly, and in 1988, for the first time, the size of the rented

Table 4.5 Housing stock built by approved building companies, and number of dwellings sold, 1970-88

Year	Housing stock (cumulative)	Dwellings sold (per year)
1970	156 187	2 145
1971	163 813	2 081
1972	173 851	2 731
1973	183 266	2 741
1974	187 325	3 018
1975	197 009	3 273
1976	205 816	3 025
1977	214 122	3 109
1978	223 482	2 763
1979	232 882	3 269
1980	241 187	1 951
1981	249 395	1 773
1982	252 190	1 684
1983	252 833	807
1984	253 654	749
1985	274 985 ¹	605
1986	250 704	628
1987	253 288	819
1988	253 278	1 049

¹ A new system of registration was introduced in 1985
Source: Nationale Maatschappij voor de Huisvesting (1989)

Table 4.6 New housing construction by the NMH compared with total new housing starts, 1970-88

Year	Number of dwellings built for NMH	Housing starts	NMH dwellings as a % of total
1970	7 710	43 890	17.6
1971	9 712	41 921	23.2
1972	12 926	51 400	25.1
1973	12 167	62 106	19.6
1974	7 109	65 280	10.9
1975	13 031	77 377	16.8
1976	11 876	76 176	15.5
1977	11 197	72 382	15.5
1978	12 169	65 910	18.5
1979	12 750	68 407	18.6
1980	10 246	46 839	21.9
1981	9 981	32 751	30.5
1982	4 479	28 552	15.7
1983	1 450	28 027	5.2
1984	1 516	23 396	6.2
1985	709	28 920	2.5
1986	530	24 444	2.2
1987	925	29 339	3.2
1988	664	33 000 ¹	2.0

¹ estimate

Source: Nationale Maatschappij voor de Huisvesting (1989)

housing stock declined. This decrease is due to the fact that the number of dwellings sold exceeded the number of dwellings being built.

The decline in the number of new social rented houses being built coincided with a marked decline in the total number of new houses being constructed. In Table 4.6 the number of new homes constructed by the NMH are compared with the total number of new homes constructed. Before 1983 social rented housing as a proportion of new housing varied from 11% to more than 30%.

From 1980 the number of new social rented dwellings built each year decreased steadily until 1987. The increase in the proportion of social-rented dwellings built between 1980 and 1981 was the result of a rapid decline in total new housing construction, from 68,407 dwellings in 1979 to 32,751 dwellings in 1981. After 1983 the number of new social rented dwellings bottomed out.

Table 4.7 considers the activities of the NMH in 1989. In that year 788 new dwellings were built by the NMH. The table classifies these dwellings according to whether they were substitute new construction, real additions to the housing stock, and to what extent the activities of the NMH involved the renovation and improvement of existing NMH homes. Renovation is here taken to mean something more radical than improvement.

The 788 new dwellings built by the NMH in 1989 were slightly more than in

Table 4.7 NMH activities in 1989, by type and region

Region	Expansion in housing stock	Substitute construction	Total new construction	Renovation	Improvement
Flanders	261	327	588	504	1910
Brussels	79	74	153	52	1507
Wallonia	47	-	47	35	3239
Belgium	387	401	788	591	6656

Source: Nationale Maatschappij voor de Huisvesting (1990)

1988, when the corresponding figure was only 664 (see Table 4.6). In its 1989 Annual Report the NMH remarked about the level of new housing construction in that year: "These results contrast sharply with the rapid growth in the 1970s when, on average, more than 11,000 new dwellings were built each year. As is well-known, budgetary pressures and cutbacks have obliged the NMH to reduce the level of new construction activity to its present, minimum, level" (Nationale Maatschappij voor de Huisvesting, 1990).

Some of the new housing constructed by the NMH consists of substitute new construction; this does not lead to an expansion of the social rented stock therefore. In 1989 substitute construction accounted for more than fifty per cent of total new construction by the NMH.

Goossens (1986: 6) too argues that the marked decline in the number of new social rented houses being constructed is mainly the result of financial problems, and that

- there is a general crisis in public expenditure, both at the national and regional levels;
- a consequence of regionalization has been to leave the regions with a burden of debt inherited from the past;
- no adequate alternative has been found for the system of pre-financing.

Consequently, a considerable number of households in Belgium, unable to purchase an owner-occupied dwelling, are forced to depend upon the relatively expensive private rented sector.

Since the abolition of the National Institute for Housing in 1986, Belgium has had no national housing consultative body. At the regional level, only the government of Flanders has taken the initiative to create such a body. The Hoge Raad voor de Huisvesting (Housing Advisory Council) was established in March 1990 and has been functioning since the end of 1990. The task of the Council is to advise the government in Flanders on all matters related to housing, and in particular to support a dynamic social housing policy. The Council can also give advice on legislative proposals at the regional level and it has a considerable degree of initiative in deciding which issues to consider and advise upon.

The Housing Advisory Council has no corporate existence and is composed of

representatives from various organizations and associations involved in social housing (Laar, 1990).

4.3.3 The construction industry

In the post-war period the government viewed the construction industry as a major instrument of counter-cyclical economic policy. A number of different measures appropriate to the nature of the various sectors and the means at the disposal of the authorities (Goossens, 1982: III.31) were employed. In the private sector the government used a combination of building subsidies, credit facilities and tax incentives. In the social sector more direct state involvement was possible because the size of the loans available for social housing was fixed by the government. The government preferred to promote housing construction through the private sector, and, in particular, through the promotion of owner-occupied housing. Moreover, government policy was strongly oriented towards the construction of new housing. As a consequence too of economic prosperity during the 1960s, the policy pursued was successful for a long time and many households were able to buy new homes.

The housing construction sector in Belgium consisted largely of small (often family) firms building single-family houses in the traditional way. The economic crisis that faced Belgium in the early 1970s seemed, initially at least, not to have an impact on the number of houses being constructed (see Table 4.6). In 1975, when the economic crisis was at its peak, 77,377 new dwellings were built, a figure not exceeded since. Goossens (1988: 230) has argued that in the initial years of the crisis many households had already anticipated that economic prospects would not be favourable.

Table 4.8 Employment and unemployment in the construction industry, 1970-1984

Year	Number employed	Number unemployed	% unemployed
1970	257 537	8 880	3.4
1971	260 167	10 098	3.9
1972	248 996	13 106	5.3
1973	239 090	10 373	4.3
1974	246 828	9 708	3.9
1975	247 748	18 079	7.3
1976	251 699	21 897	8.7
1977	252 827	25 963	10.3
1978	248 923	29 019	11.7
1979	250 643	18 104	7.2
1980	241 662	33 428	13.8
1981	212 349	50 423	23.7
1982	190 011	60 979	32.1
1983	171 117	67 420	39.4
1984	156 974	65 701	41.9

Source: Goossens (1988)

In response to the increasing demand for new housing, many small construction firms increased their level of investment in order to meet the growing demand. When the demand for new housing began to slow down in 1976, however, the construction industry collapsed as a result of this high level of investment. Many firms went bankrupt; after 1979 particularly, unemployment in the construction industry rose significantly (see Table 4.8). Goossens (1988: 233) has identified three structural problems that continue to face the construction industry. Firstly, the demand for new housing has slowed down. The number of new houses constructed in the private sector fell from more than 62,000 dwellings in 1975 and 1976 to just over 22,000 in 1984 (see Table 4.9). This decrease was partly the result of a decline in real household income. At the same time, expectations concerning income and employment are less optimistic and many households will not purchase a home while prospects remain so uncertain. Attempts to promote owner-occupation have therefore largely failed in recent years.

Secondly, financial restrictions provide a major constraint on the building programmes of the public sector and the housing societies. The number of new houses constructed in the social sector declined from 15,000 in 1979 to just over 2000 in 1984.

Thirdly, the construction industry has failed to adapt to the changed situation in the house-building market. It is still oriented towards new housing construction whereas there is an increasing need to maintain and improve the existing housing stock.

Table 4.9 Housing construction in the social and private sector, 1970-84

Year	Total	Social sector		Private sector		Of which subsidized	
		N	% of total	N	% of total	N	%
1970	43 890	9 502	21.65	34 388	78.35	15 200	34.63
1971	41 921	11 810	28.17	30 111	71.83	14 517	34.63
1972	51 400	15 680	30.51	35 720	69.49	18 146	35.30
1973	62 106	14 440	23.25	47 666	76.75	27 638	44.50
1974	65 280	8 556	13.11	57 724	68.89	21 327	32.74
1975	77 377	15 129	19.55	62 248	80.45	15 960	20.63
1976	76 176	13 737	18.03	62 439	81.97	17 726	23.27
1977	72 382	13 701	18.93	56 681	81.07	16 774	23.18
1978	65 910	15 430	23.42	50 474	76.58	18 744	28.44
1979	68 407	15 004	21.93	53 403	78.07	17 730	25.92
1980	46 839	11 836	25.27	35 003	74.73	14 041	29.98
1981	32 751	11 154	34.00	21 597	65.94	14 928	45.58
1982	28 552	5 000	17.51	23 552	82.49	9 998	35.02
1983	28 027	1 798	6.42	26 229	93.58	12 239	43.67
1984	24 400	2 253	9.23	22 147	90.77	16 642	68.20

Source: Goossens (1988)

4.4 The development of housing policy in the period 1975-90

4.4.1 Background

As in the Netherlands, the first housing act was introduced at the end of the nineteenth century in order to improve the unhealthy conditions in which urban labourers lived and to reduce the threat of social unrest. The first housing act was passed in 1889 under the influence of the Liberals and the Catholics as part of a programme of labour legislation and it aimed at the promotion of home ownership among the labourers. State involvement was indirect and took the form of helping to provide mortgages for the construction of owner-occupied dwellings through the *Algemene Spaar- en Lijfrentekas* (ASLK) (General Savings and Annuities Institution).

The government became directly involved in housing provision in 1919. In that year the National Society for Cheap Dwellings (NMGWW) was founded. This society aimed to encourage the establishment of local or regional societies that would promote the provision of cheap (rented and owner-occupied) housing by helping to finance housing initiatives (Goossens, 1982: 3.2.13). The Socialists in particular envisaged a major role for this institution; inspired by the ideals of the garden city movement in England, they saw the NMGWW as a means of ensuring the provision of social housing estates.

In 1921 the Socialists left the government and the Conservatives, in particular the Catholic Party, began to oppose what they regarded as the collectivization of housing (Goossens, 1982) and this resulted in 1922 in the introduction of the Moyersoen Scheme. This scheme aimed to stimulate housing construction by offering grants to potential owner-occupiers to enable them to build or purchase their own homes. The scheme was made more effective when in 1928 the Housing Fund of the Association of Large Families in Belgium (the WBKGB) was approved. Through this society cheap loans could be made to large families to enable them to become owner-occupiers.

The depression in the 1930s led to a rapid decline in the level of housing construction. The setting up of the National Society for Small Land Ownership (the NMKL) was an attempt to provide housing in the countryside for urban industrial labourers.

The housing shortage in Belgium after the Second World War was estimated to be at least 200,000 dwellings. Yet the number of houses constructed was slow to increase. Goossens (1982: 4.2) suggests two reasons for this. Firstly, both the price of construction materials and wage costs rose rapidly whereas, because of a rent freeze until 1956, rents declined in real terms; furthermore, the value of the grants provided to encourage the construction of owner-occupied housing failed to keep pace with actual construction costs.

Secondly, political quarrels between the CVP and the Belgian Socialist Party (BSP) meant that the first post-war housing legislation was only introduced in 1948. The CVP believed that the solution to the housing shortage lay in encouraging the private sector to build owner-occupied housing and that there was no need for a programme of public sector housing construction. The Socialists,

however, advocated the drawing up of a national plan to address housing problems in a comprehensive way. It argued that the government should itself build rented and owner-occupied housing as part of a wide-ranging policy of environmental planning.

During the period 1947-49 a coalition government containing the CVP and the BSP governed Belgium. Under this administration two acts were passed that were to be of considerable importance in the history of post-war housing in Belgium. As a result of pressure from the CVP, the De Taeye Act was approved by Parliament on 29 May 1948; this act contained special provisions to encourage private initiatives in providing cheap housing and in purchasing small plots of land suitable for housing. The act developed further the Moyersoens Scheme introduced in 1922, and consequently the housing legislation introduced in 1889 too. The De Taeye Act provided a grant for those purchasing existing housing (built by an approved society, public authorities or public institutions) or to assist the construction of new housing in the owner-occupied sector. Furthermore, the government could provide mortgage guarantees to officially approved credit societies (the ASLK and the NMKL). Prior to 1960, eligibility for these grants was not related to household income. The Socialists believed that such restrictions would reduce the effectiveness of the act to provide young families and the less well-off with housing.

The BSP-inspired Brunfaut Act, adopted on 7 April 1949, made it easier to provide housing for low-income groups. The costs of providing housing under this act formed a separate item (the National Housing Fund) in public expenditure. Both the NMGWW and the NMKL were able to construct a relatively constant number of dwellings per year; further, the costs of providing transport infrastructure were to be born by the state, effectively providing a subsidy to reduce rents for these houses.

As in the Netherlands, the primary aim of housing policy in Belgium after the Second World War was to ameliorate the chronic housing shortage. In the early post-war years little attention was paid to the quality of the housing stock. In 1953, however, in view of the poor quality of some of the housing stock, the tasks of the NMGWW and the NMKL were extended to include slum clearance and substitute new housing construction. Much of the cost of this was met by central government. Moreover, both societies were required to devote a certain percentage of their financial resources to providing housing for those living in poor-quality housing. The emphasis on new construction was maintained as an essential part of this policy of housing improvement; poor-quality housing was demolished and replaced by new housing.

The Socialist Party continued to strive for a co-ordinated housing policy and long-term planning. The Socialist minister Leburton submitted a bill in 1955 that incorporated these aims; the Leburton Act was adopted the following year. The various provisions and schemes related to housing were rationalized and a degree of co-ordination of existing housing legislation was promised. Moreover, the National Institute for Housing was established as a housing research and advisory body. This was considered necessary because an integrated housing



policy could only be pursued if there was adequate knowledge of housing needs and of the quality of existing housing. The Institute carried out its first survey of housing quality in 1961-62. In 1971 and 1982-83 two further surveys were carried out.

As a consequence of Belgium joining the Common Market, efforts have been made since 1962 to co-ordinate uncontrolled economic development by way of "economic expansion programmes". As part of this planning approach, housing policy was closely related to economic conditions, and a major element of housing policy was the construction of new housing in the private sector (Goossens, 1982). The rapid increase in real incomes during the 1960s and continued optimism concerning employment prospects enabled many households to buy new housing.

In 1970 the co-ordination of housing policy became a reality with the publication of the Huisvestingskode (Housing Code). This Housing Code contains all the existing rules and regulations related to housing. Within the code and, more generally, within the legal-organizational framework of post-war housing policy in Belgium, the following aims may be distinguished (Goossens, 1982):

- the amelioration of the housing shortage by encouraging those on lower incomes to become owner-occupiers, in particular by constructing new housing;
- the provision of appropriate rented housing for those households unable to afford to buy;
- to improve the quality of housing, mainly by pursuing a policy of renewal and improvement.

These three aims continue to dominate housing policy in Belgium.

4.4.2 The period 1975-90

Belgian housing policy since 1975 has been strongly influenced by the economic crisis of the early 1970s and by the regionalization of housing policy after 1975. As a result of the economic crisis, traditional housing policy failed to work; the number of new houses constructed fell rapidly and many households were unable to afford to buy a home.

As the number of new houses constructed fell, the age of the housing stock increased; of the countries included in this study, only England had a higher proportion of dwellings built before the war. Moreover, the quality of parts of the housing stock was poor because housing policy paid little attention to urban renewal and housing improvement (de Decker, 1990: 11).

As a consequence of the financial restrictions that resulted from the economic crisis, a system of pre-financing was introduced in the social rented sector in 1975 (see section 4.3.2). This made it possible, in the short term at least, to provide a relatively large amount of social rented housing. In the long term, however, it led to a significant level of debt and major problems for the social housing sector.

In the course of the 1970s greater powers were given to the regions, and these regions were to an increasing extent able to develop their own policies in various fields, including housing. In 1980 political responsibility for housing was formally devolved on the regions. The debts resulting from the system of pre-financing were also transferred to the regions, however, without increasing their level of funding to compensate. Investment in social rented sector housing has consequently fallen drastically. This has resulted in a decrease in the activities of the housing societies. In 1989 the NMH had at its disposal investment credits amounting to 3 billion Belgian francs. In Flanders the investment programme had been fixed at 2 billion Belgian francs, of which eventually 1.9 billion was released. In Wallonia and Brussels the housing budget was set at 674 million and 1 billion Belgian francs, of which 128 million and 300 million respectively were intended for projects already begun. A survey carried out by the NMH has revealed that the present investment programmes are absolutely insufficient to meet the financial needs entailed by the new construction and renovation programmes of the approved building societies. In the region of Flanders investment plans totalled 53 billion Belgian francs, of which 65% was intended for new construction and 35% for renovation. In Wallonia proposed investment plans amounted to more than 15 billion Belgian francs, of which 67% was for new construction and 33% for renovation, and in the Brussels Region housing investment needs were set at 8 billion Belgian francs, of which 60% was for new construction and 40% for renovation (Nationale Maatschappij voor de Huisvesting, 1990: 9).

Since 1980 differences have emerged in the housing policies pursued by the three regions. The emphasis on the role of the private sector, however, has not changed; nor has the political emphasis on owner-occupation, the provision of rented housing for households unable to afford their own home, and the reconstruction or improvement of poor-quality housing. The importance of owner-occupation in housing policy may be gauged from, among other things, the fact that, under certain conditions, when a mortgage is taken out in order to buy a home (and, in the case of Wallonia, to finance housing improvements), those taking out the mortgage are insured free of charge against possible subsequent falls in income (United Nations, 1989; Laurent and Jacques, 1987). In Flanders this scheme was abolished in April 1991.

The provision of social rented housing for those households unable to afford to buy their own home is one of the most important problems facing housing policy in all the three regions. As a result of the sale of existing social rented housing and the fact that few new houses are being built by the housing societies, the size of the social rented housing stock has been decreasing in the past few years.

The improvement of the housing stock has received increasing priority since the beginning of the 1980s. This has resulted from, on the one hand, the relatively poor quality of parts of the housing stock, and, on the other, from the fact that the growth in Belgium's population has stagnated, which means that the need to expand the housing stock will decrease in the future.

Regional housing policy is to an extent dependent on the regional housing situation. Brussels, for example, faces problems typical of all large cities: a large ethnic minority often badly housed, an old and qualitatively poor housing stock, high land prices and speculation, which are partly the result of Brussels' position as a national and European capital, and the depopulation of the inner city. Wallonia, which before the Second World War profited from industrial growth during the nineteenth century, is now confronted with a general decline in the standard of living. The housing stock in Wallonia has also aged and is now relatively poor in quality. Flanders has profited most from post-war housing policy and currently has a relatively young and qualitatively good housing stock.

In Flanders the housing policy currently pursued is in principle similar to the policy pursued prior to regionalization. The emphasis was on the promotion of new housing construction and the reconstruction or improvement of poor-quality housing. At the beginning of the 1980s subsidies for private sector housing construction were increased, along with the income threshold that determined eligibility for grants. According to Laurent and Jacques (1987: 80), economic motives were more relevant than social motives in determining this move; households with a relatively high income were profiting from the scheme. In the last few years the income limits have been frozen in Flanders, and the proportion of households eligible for subsidies has consequently decreased. To an increasing extent, housing policy in Flanders emphasizes the importance of preserving and improving the existing housing stock.

In Wallonia immediately after regionalization there was a shift in emphasis in housing policy towards improving the quality of the housing stock. The conditions under which construction grants were provided were frozen. Greater priority was given to improving the existing housing stock, as is evident from the income limits for housing improvement grants and for new housing construction grants: the former is twice that of the latter (Laurent and Jacques, 1987).

It appears from Table 4.10 that the number of new houses constructed in Belgium has risen slightly since 1985 after reaching a low of 24,400 in 1984 (see Table 4.9). Most of this increase can be attributed to the private sector in the region of Flanders. The increase in the level of subsidies provided and a broadening of the eligibility requirements in Flanders contributed to this increase, according to Laurent and Jacques (1987: 21); so too did the temporary

Table 4.10 New housing construction by region, 1985-88

Year	Flanders		Wallonia		Brussels		Belgium	
	Total	Social ¹	Total	Social ¹	Total	Social ¹	Total	Social ¹
1985	22 517	1 133	5 827	44	575	490	28 919	1 188
1987	23 149	1 509	5 316	16	847	694	29 339	1 572
1988	27 876	1 122	6 426	49	1 127	537	35 429	1 186

¹ Social construction, i.e. new construction by the NMH and the NLM

Source: United Nations (1989)

reduction in the rate of value added tax (VAT) from seventeen to six per cent and the slight fall in the level of mortgage rates. New housing construction in the social sector declined, however, as a consequence of steadily worsening investment opportunities.

At the national level a new rent act came into force in February 1991. The most important elements of this act, which is specifically concerned with the private rented sector, are the automatic linking of rents to the cost of living and greater protection for tenants by extending the length of leases to nine years. The landlord may terminate the contract (with six months' notice) if he or she intends to live in the dwelling or wants to make important changes to the dwelling. The landlord can also terminate the contract after a period of three or six years, in which case compensation has to be paid to the tenant. The tenant can terminate the lease at any time; he or she must give three months' notice, however, and is also required to pay compensation to the landlord if the tenancy is terminated within the first three years.

4.5 Housing policy in the 1990s

The housing policy of the regions has not as yet been finalized. The process of regionalization is continuing and this has led to a delay in the formulation and implementation of new policies in many fields. As a result, housing policy in Flanders has suffered over the last few years from an "institutional confusion" and a lack of financial resources (de Decker, 1990: 8). There is no reason to believe that the situation is any different in Wallonia or in the Brussels Region.

The three main aims of housing policy outlined above are likely to continue to shape regional housing policies throughout the 1990s. The emphasis will increasingly be switched, however, from new housing construction to improving the existing housing stock.

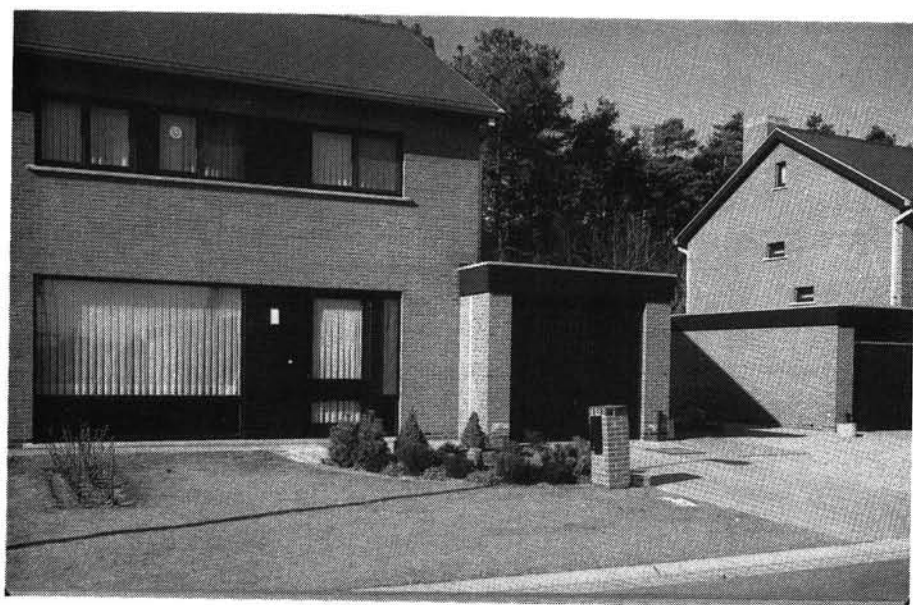
In Flanders housing policy in the first half of the 1990s will stress the necessity of preserving and improving the existing housing stock; the Second White Paper on Woonbehoeften in Vlaanderen (Housing Needs in Flanders) (Ministry of the Flemish Region, 1989d) stated that for the period 1990-95 more than 70% of the housing needs in Flanders relates to the reconstruction or improvement of existing dwellings. In addition to the 50,000 new dwellings required, some 94,000 dwellings will have to be improved and 36,000 replaced by new housing during the next five years. Partly on account of the population developments expected in the second half of the 1990s, the period 1995-2000 will see the emphasis in housing policy increasingly being placed on the improvement and substitution of existing housing.

In the second half of 1990 ten so-called housing shortage areas were defined in Flanders. These areas have a high concentration of old and dilapidated dwellings. The subsidies provided under the urban and village renewal programme will be directed particularly to these areas.

The languishing state of the social rented sector will become one of the most

important policy issues in the three regions in the near future. The declining availability of social housing for low-income households and the question of financing new construction will be of particular concern. The social rented sector is increasingly failing to provide housing for those on low incomes on account of the decline in the stock of social rented housing (more dwellings are currently being sold than built) and because of the fact that approved building societies are expected to break even under a system based on income related rents. This makes it inevitable that each building society has to let housing to households paying more than the basic rent in order to compensate for those households eligible for reductions in rents on account of their low incomes. In other words, the pressure to rent out part of the decreasing number of social rented dwellings to households with a relatively high income will become greater.

To finance the construction of new social rented housing, the regions are considering alternatives to the system of pre-financing. One such alternative has been introduced in the regions of Brussels and Wallonia and is based on a system of annual budgetary finance. In Flanders the system of pre-financing still exists, but an experiment is now under way to encourage the private sector to provide social housing (see section 4.3.2).



THE FEDERAL REPUBLIC OF GERMANY

5.1 Administrative and legal systems

Before reunification on 3 October 1990 the Federal Republic of Germany (FRG) consisted of eleven federal states or *Länder*. As a result of its unification with the German Democratic Republic (GDR), the number of states has increased by five. The political and legal structure has remained unchanged however. Under the German Constitution the federal government decides the framework of legislation and the states are then responsible for implementing policy, though account is taken to some degree of local needs and aims. As a result, there are sometimes substantial variations in the precise policies implemented in the states.

In spite of the national character of legislation and the specific directives accompanying this legislation, the states are able to determine their own housing policy to a large extent (Leutner et al., 1990). In particular, the states are responsible for allocating supply subsidies for new construction, and it is the responsibility of the states and the municipal authorities to administer housing subsidies in general. The federal government only determines the level of the subsidies available. The *Bundesbauprogramm* is expressed then not in terms of numbers of houses to be built, but in the amount of money available. Nor does the federal government distinguish between different categories of housing finance or between types of housing tenure. The result of the construction programme depends on how this programme is interpreted and implemented at the state and local level. An assessment of the results of the construction programme, which is useful, among other things, for evaluating and modifying policy, is therefore only possible much later.

The level of the annual budget is based on official housing needs and is determined by the Minister for Regional Planning, Building and Urban Development after consultations with the Treasury. The lack of research into housing needs makes it difficult in practice, however, to calculate these housing needs. The total budget set by the federal government is distributed to the states according to an agreement drawn up annually with the government. This agreement between the federal government and the states sets the level of the federal

government's expenditure on housing. The states are required to match the expenditure of the federal government from their own resources (Hereijgers and Roelofs, 1991: 6). In practice it appears that the level of housing expenditure by the states is much greater than that by the federal government (see Figure 5.4). The total amount available is distributed to the states according to a formula. This formula is largely based on the numbers of inhabitants and to a lesser extent on the number of refugees and migrants. In the agreement between the federal government and the states the principle behind, the level of and the conditions attached to financial assistance (financing and subsidies) are further defined. The federal government sets the total amount of lending available to the states to help finance housing (including both loans for housing construction and loans to cover operating costs). Loans for housing construction are financed by the capital market. Furthermore, subsidies are available to help finance operating costs (Hereijgers and Roelofs, 1991: 7).

Within the framework of the planning and implementation of housing construction programmes, the quality of social housing, the methods of financing housing construction and the regulations concerning housing subsidies can vary considerably between states (Rosemann and Westra, 1988: 47). The city states of Bremen and Hamburg and the state of North Rhine-Westphalia concentrate subsidies on the construction of social rented housing, while less urbanized states, such as Baden-Württemberg and Lower Saxony, primarily direct their efforts towards owner-occupied housing. A change of government in a state may thus lead to a radical change in housing policy within that state.

There are three, or sometimes four, levels of government within the states. Each state has a *Landesregierung* (federal state government). Below this are the *Regierungsbezirke* (district authority) and the *Kreise* (administrative area). The *Regierungsbezirke* are districts within a state, whereas the *Kreise* is the smallest level of administrative authority above that of the municipality. The *Kreise* are especially important in rural areas, where the smaller municipalities are less able to carry out various functions. The *Kreise* are responsible for implementing the housing policies of the states. Not every state has both of these administrative levels (NEI, 1989: 93; Mastop et al., 1989).

Municipalities and groups of municipalities are also able to develop their own housing policies. As long as the municipal budget permits it, they may provide additional direct subsidies for housing construction. The municipalities also contribute to housing provision by developing building sites and by opening up new residential areas (see Leutner et al., 1990: 401-410).

There is federal government legislation covering most aspects of construction policy and rent and subsidy policies (Leutner et al., 1990: 402). The states are therefore limited in the extent to which they can develop their own legislation. The parliaments of the states do sometimes have the right to participate in drawing up national legislation and to vote on that legislation. They have the right to vote in those cases where they would have to bear at least twenty-five per cent of the costs of the legislation proposed. Where they are liable for a lower proportion of the costs, the states have the right to give their opinion on

legislative proposals.

As mentioned above, the states are responsible for implementing federal legislation, including the organization and hiring of staff. Although the federal government may issue directives relating to the implementation of policy, the states are not required to adhere to them.

The relationship between the federal government and the states has often been one of conflict in the past (Leutner et al., 1990: 405). In particular, friction arose after 1956, when the general principles of the First House Building Act (1950) were followed by the more detailed terms of the Second House Building Act and the federal government tried in vain to standardize subsidy schemes between the states. The distribution of subsidies between the various states still remains an annual subject of dispute. Further, there are also regular political party conflicts between the states and the federal government.

The influence of the federal government has changed over the years, particularly in the field of supply subsidies. In 1987 the federal government abolished subsidies for rented dwellings as a result of the low growth projected in the population and the existing surplus of housing (a large number of houses were vacant, and it was estimated that there was a housing surplus of around 100,000 dwellings). At the time it was even proposed to abolish the Ministry of Regional Planning, Building and Urban Development. These proposals were supported by the states, who wished to see overall responsibility for housing construction and the housing budget transferred to them. At the end of the 1980s the situation changed radically. As a result of increasing shortages of housing, the federal government considered it necessary once again to subsidize housing construction (see sections 5.4 and 5.5). Experts expect, however, that when the housing shortage is reduced, these discussions concerning the role of the Ministry will re-emerge, reinforced by the general tendency towards deregulation in the FRG. For the time being, however, the most recent data suggest that there is little prospect of the housing shortage being alleviated in the near future. On the contrary, the German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung (DIW)) assumes that between now and the year 2000 two million Aussiedler (immigrants with a German background from Poland, Hungary, Romania and the Soviet Union) will emigrate to the new Germany. In addition, it appears that attempts to increase the level of housing construction to the levels intended will not be completely successful (see section 5.5).

A conflict that has become a focus of attention recently is the question of who is responsible for housing the more than 2.5 million immigrants who have moved to the FRG during the past two years, particularly from the former GDR. The states have argued that this is a national issue for which the federal government is primarily responsible (since it is related to foreign policy, on which the states have no influence); the federal government argues that it is the function of the states to provide their inhabitants with housing.

In contrast to supply subsidies, there has never been any discussion between the federal government and the states on the question of demand subsidies for housing. The costs of housing benefit (Wohngeld) are borne equally by the

federal government and the states. Housing benefit is the most important policy element in the housing safety net.

Municipalities in the FRG are dependent on central government to a much lesser extent than those in the Netherlands, particularly in the case of the financial position of the municipalities. The municipalities in the FRG finance more than one-third of their expenditure by means of their own (tax) revenue. The second difference is that their influence on housing is less than in the Netherlands. This is partly a result of the stronger position of the private sector in the FRG, but also because municipalities in the FRG are less able to supervise non-profit housing organizations within their areas. The influence of municipalities upon these non-profit housing organizations is therefore either indirect (for instance through the allocation of housing quotas) or, as often happens, direct in the sense that municipalities co-own the housing organizations. Finally, individuals, too, have the right to build social rented housing, provided they adhere to certain conditions that regulate the operation of this housing; these conditions relate to the allocation of housing and rent regulations. In the past, recognition as a registered non-profit housing association resulted only in certain tax advantages (Rosemann and Westra, 1988: 48). With the abolition of the *Wohnungsgemeinnützigkeitgesetz* (WGG) at the end of 1989, these tax advantages disappeared.

5.2 Environmental factors and environmental planning

For a long period discussion on environmental policy in the FRG was dominated by the contrasts between urban and rural areas. This was partly a reflection of the fact that fifty-five per cent of the population of the FRG live in urban areas covering less than a quarter of the total area of the FRG.

There has been a shift from the urban areas of the north to those of the south. In the old industrial areas (the Ruhr and Saarland) both the number of inhabitants and the number of jobs decreased during the 1980s, whereas in the densely-populated areas in the south of the country (Stuttgart and Munich) a substantial growth has taken place (Federal Ministry for Regional Planning, Building and Urban Development, 1987: 20-21). By the early 1990s, this movement seems to have been halted and the pressure on the housing market in the old industrial areas has increased. During the 1980s the more rural areas with lower population densities experienced only a small fall in population. In spite of the population decline in the cities, it is here that housing shortages are most acute. This can be explained by the fall in the number of new houses being constructed in the cities and the fragmentation of households (leading to smaller but more households).

The *Bundesbaugesetz* (BBauG), the first important government act in the field of construction and environmental planning, was passed after many years of debate on 23 June 1960. It ensured that, for the first time, there was throughout the FRG a uniform legal framework for urban development planning, building

regulations, the sale of land and environmental planning in which the functions and responsibilities of the various levels of government were laid down. For planning at the municipal level it became necessary to obtain the consent of the states. The people were also given the right to participate in the planning process (Duvigneau and Schonefeldt, 1989: 37-38). The Bundesbaugesetz provides guidelines for land use plans and for regulating environmental developments.

The act failed to live up to expectations however (it failed, for instance, to counter speculation effectively). There remained problems related to the distribution and development of building sites. The sanctions proposed for holding back possible building sites for purely speculative reasons were never implemented. This was one of the main reasons why the Städtebau-förderungsgesetz (STBAUFG), the Urban Renewal Act, was introduced in 1971.

This Act constitutes an extension and a modification to the Bundesbaugesetz passed in 1960, especially for specific areas. These specific areas were:

- a) urban redevelopment areas and renewal districts;
- b) urban development zones, as defined under the terms of the act by the regional authorities.

As soon as redevelopment or renewal is completed, legal support is terminated. In comparison with the legislation introduced in 1960, there have been a number of changes specific to these areas. Their role in planning decisions has been strengthened, a scheme has been set up to reduce the negative effects of redevelopment and renewal, development subsidies are available from both the federal and state governments, and there are specific regulations affecting construction (specifying, for instance, that neither public nor private bodies may make a profit from the redevelopment). There are thus no opportunities for speculation, and individuals who see the value of their property increase are forced to pay compensation. Finally, specific forms of organization (project groups) can now be established that have formal responsibility for redevelopment projects.

Mastop et al. (1989: 62-63) have remarked that urban renewal policy (like housing construction policy) in the FRG mostly aims to promote private investment in construction by way of tax concessions; thirty per cent of public expenditure on urban renewal is in the form of tax expenditures. The costs of financing urban renewal are shared more or less equally by the federal government, the states and the municipalities. But Mastop et al. have pointed out that the implementation of the urban renewal programme is seriously hampered by the financial dependence of the municipalities on the states and the federal government and by the fact that a significant proportion of housing subsidies is in the form of tax expenditures. The municipalities cannot influence the level of these tax expenditures. In 1976, for instance, the federal government made an important change in tax legislation that led to a property boom in the older city districts, leading to a considerable increase in rents and the departure of low-income households. This was contrary to the aims of the urban policy of these municipalities (Mastop et al., 1989: 63).

Initially, the Urban Renewal Act aimed at generating more building activity in the cities, since this was considered the key to national economic growth. The consequence, in many cases, was that entire city districts were demolished to provide room for new projects (a similar development took place in the Netherlands during the 1960s and early 1970s). Currently, as in the Netherlands, the tenant is now a much more central figure in planning policy as a result, among others things, of the introduction of procedures to increase tenant involvement in planning, countering rent increases and of encouraging initiatives on the part of tenants themselves (Mastop et al., 1989: 62-63).

Under the new regulations introduced in 1960 1531 redevelopment projects and 55 development projects were subsidized in the period 1971-84 (costing a total of around DM 20 billion). In particular, many old city districts were revitalized by this kind of project. Further, large-scale programmes of urban renewal were also introduced.

In addition to these projects, DM 11 billion was spent during the same period on modernization and energy saving. In total therefore DM 31 billion was spent on urban renewal and housing improvement programmes, of which DM 23 billion was provided by the various states and DM 8 billion by the federal government. Since 1986 there has been a further increase in expenditure because many building firms have turned to urban renewal and house improvement. This is in response to the gradual decline in the size of the housing construction programme (see section 5.4.3.) and the fact that the federal government has shifted the emphasis of its policy from new construction to better management of the existing housing stock (Duvigneau and Schonefeldt, 1989: 42-44).

In 1986 the Bundesbaugesetz and the Städtebauförderungsgesetz were subsumed by the Baugesetzbuch (ratified in 1987), which aimed to promote a more co-ordinated planning policy. In addition, the 1965 Bundesraumordnungsgesetz (Physical Planning Act) is still in force. This act lays down the relationship between the various levels of public administration within the planning system.

Mastop et al. (1989: 59) have suggested that much criticism can be made of the system of planning policy in the FRG. Their criticisms focus on four aspects of planning policy:

- the drawing up and approval of plans involves lengthy and somewhat obscure procedures;
- the plans are often too detailed and inflexible;
- planning legislation is appropriate for avoiding undesirable developments, but rarely for stimulating those developments that are desirable (urban renewal for instance);
- the legally-binding Bebauungspläne (land use plans) often turn out to be subject to other regulations; this leads to legal insecurity and obscurity in the implementation of policy.

The Baugesetzbuch introduced in 1987 was an attempt to cope with these problems. The most recent changes in planning and building legislation were

introduced in March 1990. The Wohnungsbauerleichterungsgesetz (Housing Construction Relief Act) was passed in order to increase the supply of building sites and thereby help the government to achieve its goal of seeing one million new dwellings constructed in three years (see also section 5.5).

The planning system was simplified as part of a general policy of deregulation. A number of measures were introduced as part of this (Bundesminister für Raumordnung, Bauwesen und Städtebau, 1990: 16-17):

- Land use plans in which housing can be fairly quickly provided can be drawn up more speedily;
- Where the use of farm buildings is to be redesignated, these buildings can be converted into a maximum of four dwellings. The exterior form of the buildings is required to be preserved;
- Building sites may also be developed in small settlements that do not have a purely agrarian function;
- The length of the legally-required period between the publication of housing construction plans and the date when these plans can be carried out is shortened;
- Petitions against housing construction plans no longer lead to these plans being suspended;
- Other legislation has been amended so that it has become possible if necessary to compel landowners in the city (by levying fines for instance) to co-operate in implementing building plans;
- In the case of land use plans in the countryside that propose to construct housing, municipalities are given a preferential right to buy the land for the purposes of house building;
- Urban development measures have been reintroduced to enable municipalities to speed up the development of new residential districts and wastelands.

5.3 The organization of the housing market

5.3.1 Housing tenure

The private sector plays a considerable role in housing provision in the FRG. Thus the private rented sector operates about forty-two per cent of the total housing stock. It is remarkable that, in addition to the traditional large commercial lessors, wealthy private individuals also invest in housing construction. Their interest in housing construction primarily results from the tax advantages associated with housing investment. By permitting tax relief on many items of investment, the government is able to sustain this interest. Indirect subsidies through tax rebates amount in general to one-third of total construction costs. In recent years efforts have also been made to limit tenants' rights in order to strengthen further the position of the private rented sector (Rosemann, 1984: 332).

About half of private or privately-financed (unregulated sector) rented dwellings were built before the Second World War. Most of these dwellings

were constructed in large cities and industrial areas. Private sector financed new construction is now almost non-existent in the cities. The increase in land and construction costs, combined with the declining incomes of those living in the cities, has strongly reduced investment opportunities. In particular, the large insurance companies have withdrawn much of their investment (Leutner and Jensen, 1988: 172).

In the case of rented housing financed purely by the private sector, rents are set at market levels. Rent increases during the lifetime of the contract are limited. The lessor is subject to legal provisions prescribing that in the case of rent increases the lessor has to prove that the proposed rent is similar to the rents of comparable rented dwellings in the same region. The level of the rent is renegotiated when the lease is renewed or prolonged (Lazeroms, 1989: 28). According to Leutner and Jensen (1988: 174), rent controls have had only a marginal effect in the long term. Rents have been increased, and though these legal conditions delayed the implementation of these increases, this delay was more than compensated for when the tenancy changed hands.

Tenants have extensive rights in the FRG. The lessor can give a tenant notice only if the tenant does not observe the stipulations of the lease, and if the lessor himself or herself intends to live in the dwelling. Since 1983 temporary leases have also been possible (for a maximum period of five years). These leases can be concluded if the owner intends to occupy the dwelling within a short period, or if demolition or improvement plans have been drawn up. The protection afforded to tenants is a thorn in the side of those organizations representing the interests of landlords. They have claimed that investment in rented sector housing is being reduced on account of the extent of protection given to tenants (Leutner and Jensen, 1988: 173).

The second largest housing sector in the FRG is the owner-occupied sector. In spite of attempts during the 1980s to increase the size of this sector, the size of the owner-occupied sector has remained fairly constant, accounting for around forty per cent of the total housing stock (the figure for 1987 was forty-two per cent). For a country like the FRG, where housing policy is strongly influenced by market conditions, this percentage may seem low, especially since four per cent is financed as part of social housing construction and consequently earmarked for occupants on low incomes. (These dwellings can be compared with sector-A housing in the Netherlands.) There are considerable variations between the various states however. In North Rhine-Westphalia, for instance, the corresponding percentage is twenty-five per cent. Owner-occupied housing was originally common in rural areas. After the Second World War, particularly, there was a growth in the owner-occupied sector in suburban areas, and many detached houses were built.

The subsidization of owner-occupied housing takes a number of forms: the subsidization of mortgage interest, direct grants, financial assistance in the form of housing benefit or *Baukindergeld* (see section 5.4.3). There are differences between the states however. Characteristic of the FRG is the system of *Bausparen* (Building Savings Scheme). Under this scheme, savers enter into a



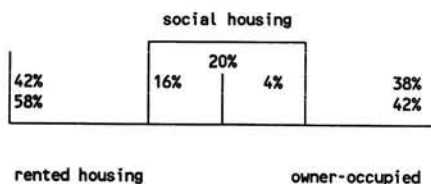
savings contract at low rates of interest. After a period of time, the saver can take out a mortgage with the bank, again at a significantly lower level of interest than normal. The house purchaser has to be able to finance forty per cent of the purchase costs himself or herself however. The loans are repaid quickly (over a period of ten to twelve years) (see Haffner, 1990; Papa, 1991). According to Leutner and Jensen (1988: 162), the average construction costs of an owner-occupied dwelling in the FRG were DM 300,000 in 1988. The costs of existing housing are also high: in 1990 the average cost in the FRG was DM 450,000; exceptionally, the average in Munich was DM 850,000 and in West Berlin DM 710,000 (Bouwer, 1991). Only by reducing consumption significantly can households afford these. In addition, strong fluctuations in interest rates present great risks, as became apparent in the past.

The subsidies available for and the conditions attached to the construction of subsidized owner-occupied housing are similar to those in the social rented sector.

In addition to traditional forms of owner-occupied housing, since 1951 there has been the Eigentumswohnung: co-operative housing. In the case of co-operative housing the flat is owned exclusively by the occupant, while there are also common provisions. The occupant is obliged to participate in the management organization that administers the properties. In 1984 about one-fifth to one-sixth of total new housing in the owner-occupied sector was realized by means of co-operative housing schemes. To a greater extent than in the case of new housing construction, ownership results from the transfer of traditional rented dwellings to the owner-occupied sector (230,000 in 1984). The co-operative form of ownership aims at integrating the advantages of the rented and the owner-occupied sectors and it can be compared with those schemes to promote owner-occupation introduced in the Netherlands.

The third and smallest sector in the housing market in the FRG is the social rented housing sector; it accounts for only 16% of the total housing stock. Including the 4% of total housing that is social owner-occupied housing, we can see that the social sector thus accounts for a total of 20% of the total housing stock (see Figure 5.1).

Figure 5.1 The structure of the housing market in the FRG by sector, 1987



5.3.2 The social rented sector

There are great differences between the social rented sector in the FRG and that in the Netherlands. Rosemann and Westra (1988: 36) discuss two particular differences in detail. Firstly, as noted earlier, the construction and operation of housing in the social sector in the FRG is not limited to registered institutions. In principle, project development companies, institutional investors and even individual investors can also construct and operate social rented housing and receive public assistance for doing so, and they avail themselves of these opportunities to a considerable extent. Of the approximately 4 million rented dwellings in the social sector in 1984, 2.5 million were owned by registered institutions, while 37.5% of all social rented housing was controlled by commercial organizations. The reason for this is that investment in the social rented sector, too, can be profitable. Papa's study of housing finance in the FRG deals with this aspect in some detail (Papa, 1991).

A second important difference mentioned by Rosemann and Westra is that the financing of social housing construction in the FRG was already largely privatized by the beginning of the 1970s. An important feature of the housing finance system is that it is possible to make a profit from operating social rented housing. These profit margins are one of the conditions for the expansion of the social housing sector. Those operating social housing are thus able to build up the resources necessary for future housing construction. The expansion of the social sector is thereby tied to the market; the housing managers have to make enough from their housing stock to be able to generate future housing investment. The result of this situation is that the management of social housing in the FRG is strongly influenced by economic considerations; in particular, housing managers aim to optimize operating conditions and are less concerned with ideas of social responsibility towards tenants. The social function of housing management in this sector increasingly plays a subordinate role (Rosemann and Westra, 1988: 38-39). Lazeroms (1989: 26), too, argues that the system of calculating rents, whereby rents are based on construction costs, does not encourage efficient and sober building. In the case of dwellings whose construction costs are high, a correspondingly higher rent can be asked under the present system of calculating rents. The result is that little cheap rented housing is constructed.

Most leases contain a clause stating that the dwelling will be improved periodically. Rents can be increased by up to eleven per cent of the net costs of improvement in order to help cover the costs. According to Lazeroms (1989: 26), a considerable part of the social rented housing stock is in a poor state, in spite of the fact that part of the costs of improvement may be passed on to the tenants.

The system of financing social housing construction is closely connected with the legal conditions regulating registered institutions in the FRG. Compared with the Netherlands, the German registered institutions enjoy more autonomy and more financial independence.

The most important legal conditions affecting registered institutions in the

FRG were laid down in the Wohnungsgemeinnützigkeitgesetz (WGG) (Non-Profit Housing Act). Under this act the registered institutions benefited from a number of financial advantages; they were exempt from most taxes, including company tax, and they paid reduced fees on selling and purchasing property. On the other hand, they had a number of obligations:

- their functions were principally to provide Kleinwohnungen (small dwellings), and to promote urban renewal and urban development;
- no more than four per cent of the operating surpluses could be withdrawn by the owners in any one year;
- rents were to be calculated on the basis of costs, i.e. on the basis of financing costs, depreciation and management and service costs (Rosemann and Westra, 1988: 41).

At the end of 1989 this act was abolished, and, with the exception of the co-operative housing associations, private and social housing sector landlords are now treated identically by the government. Jaedicke and Vesser (1990) have remarked that, as a result, unexpectedly and to the detriment of housing policy, one of the pillars of German housing policy was effectively dismantled. In the 1980s there had been an extensive exchange of views between the government and housing managers about possible revisions to the act. As part of a general reform of financing, however, the government decided, somewhat suddenly and against the wishes of those parties involved in housing, to abolish the act.

In legal terms there exist two different types of registered institution in the FRG:

- the Genossenschaften, which are similar to co-operative associations, and
- the Wohnungsbaugesellschaften, mostly organized as limited liability companies (Gesellschaft mit beschränkter Haftung, or GmbH, and Aktiengesellschaft, or AG).

In addition, there are a number of other types of institutions, such as the Stiftungen (foundations) and Vereine (associations), though they are few in number. Associations and foundations similar to the Dutch housing associations hardly exist in the FRG.

In 1986 there were more than 1826 registered institutions in the Gesamtverband Gemeinnütziger Wohnungsunternehmen, an umbrella organization for landlords in the social non-profit rented sector. Of these 1826 institutions two-thirds are Genossenschaften (co-operative associations). Only thirty per cent of the total housing stock of all the registered institutions is controlled by Genossenschaften. About one-third of the registered institutions are Wohnungsbaugesellschaften. They control seventy per cent of the housing stock.

The Genossenschaften are usually small in size and mostly concerned with providing housing for their members. As is the case in the Netherlands, there is a tendency among the registered institutions towards a concentration of Wohnungsbaugenossenschaften; the number of Genossenschaften has fallen by twenty-five per cent over twenty years, while their membership has increased by fifty-two per cent over the same period. The problem resulting from this is that

the large professional housing organizations are more distant from and less responsive to the needs of their tenants (van Dielen, 1984: 316).

Most of the Wohnungsbaugesellschaften, too, are relatively small in size (each controlling on average 4000 dwellings). In addition, however, there exist a number of very large organizations (four of them each controlling more than 50,000 dwellings). In the case of a substantial proportion of those societies with limited liability, the only shareholders are the trade unions, national employers such as the post office and the railway, the churches, the states, the municipalities and industrial enterprises.

The principle of *Eigenwirtschaftlichkeit* is of particular importance for registered institutions in the case of housing finance. In contrast with the Netherlands, for instance, registered institutions in the FRG finance and run housing at their own risk and at their own cost.

A *Gemeinnütziges Wohnungsunternehmen* (non-profit housing association) is required to be a member of an auditing association, the *Prüfungsverbände*. There are ten regional bodies that audit the profit and loss accounts of the associations; these accounts are drawn up according to identical methods. The auditors also give advice to the individual associations. The ten regional bodies are united in a central organization.

The public authorities exercise only marginal control over the financing and operation of the housing owned by the housing organizations. These are left entirely to the registered institutions themselves. This determines to a large extent the size and programming of their activities. Consequently, with respect to financing and organization, the registered institutions have a far-reaching degree of autonomy, not least because of the fact that the conditions attached to financing the construction of social housing are similar to those applied in the case of private investors and other commercial institutions. Rosemann and Westra (1988: 43) therefore suggest that some Wohnungsbaugesellschaften are more like project development companies than Dutch housing associations. Such institutions are largely beyond the control of public authorities. This lack of control is one of the most important reasons for the scandal surrounding the recent collapse of the *Neue Heimat* (the largest non-profit rented housing company in the FRG).

Between 1950 and 1985 non-profit institutions built 3.7 million dwellings, of which 2.8 million were in the rented sector. The non-profit sector suffered greatly during the building recession in the mid-1970s. The number of new houses constructed in the non-profit sector decreased by fifty-eight per cent during the period 1970-86, while the total number of new houses constructed fell by thirty-six per cent over the same period (*Gemeinnütziger Wohnungsunternehmen*, 1986).

There is no independent housing and construction advisory body similar to the RAVO in the Netherlands. The parties involved are often consulted however (though this is not required) (van der Laar, 1990: 20). The FRG mostly uses *Sachverständigen kommissionen*, committees of experts, on which many organizations are represented. The broad composition of these committees means that,

in cases involving controversial subjects, it is difficult to come to an agreement.

Tenants are well organized in the FRG, even at the municipal level. The tenants' association is the most important pressure group in the field of housing and construction in the FRG and has close ties with political parties (in particular with the Social Democrats, the SPD). In view of the structure of the housing market in the FRG, which has a high proportion of rented housing and a smaller proportion of owner-occupied housing and of rented housing in the social sector than in the Netherlands, this is understandable. The main task of the tenants' association is to provide legal advice to its members. It is for this reason that many tenants are members of this organization, and this in turn strengthens the political influence of the tenants' association.

As a counterweight to this association, there is a reasonably well-developed association of landowners and landlords that has some influence on housing policy, though nothing like that exercised by the tenants' association.

5.3.3 The construction industry

Since the Second World War many different types of investors have been involved in the housing market, varying from large building companies to individual households. Most housing investment has been provided by households themselves however; their contribution has consistently exceeded fifty per cent (see Table 5.1), and in some years even amounted to seventy per cent of total housing investment. In the last twenty years, however, investment by households has mainly been in the owner-occupied sector (Duvigneau and Schonefeldt, 1989: 24).

The construction industry in the FRG consists mainly of two different groups of firm:

- companies who construct for the unregulated market;
- companies who concentrate on the construction of subsidized dwellings.

There have been changes during the past few years, particularly as regards the construction of rented housing by these various enterprises (see Table 5.1). Until 1977 most rented housing was constructed by those companies building for the subsidized sector, whereas after 1977 most new rented housing was constructed by companies involved in the unregulated market. The main reasons for this change were, firstly, that unsubsidized housing construction increased rapidly and there was a sharp rise in the demand for owner-occupied housing. Secondly, the number of houses constructed in the social rented sector declined as subsidies were cut (Duvigneau and Schonefeldt, 1989: 26).

The construction industry in the FRG is dominated by small enterprises. In 1982 four out of five construction firms employed fewer than twenty employees (Heuer et al., 1985: 373).

Table 5.1 Number of dwellings completed, by dwelling type and type of investor, 1960-85

Year	Total number of dwellings	Res. bldgs. with		Enterprises with no housing construction	Non-profit housing construction	Other housing construction (taxable)	Public builders ¹	Private house- holds
		1 and 2 apartm.	3 and more apartm.					
Number								
1960	522 855	235 525	287 330	19 154	149 714	24 238	12 931	316 818
1965	535 613	261 188	274 425	32 605	150 082	33 320	16 121	333 785
1970	444 904	196 107	248 797	34 898	88 301	53 301	8 762	239 615
1975	404 866	195 045	209 821	32 113	66 468	58 655	11 741	335 889
1980	363 094	249 067	114 027	20 796	33 413	69 858	4 590	234 437
1985	248 438	151 736	132 702	12 382	24 616	74 094	3 802	169 544
% of apartments total								
1960	100	45.0	55.0	3.7	28.6	4.6	2.5	60.6
1965	100	48.8	51.2	6.1	28.0	6.2	3.0	56.7
1970	100	44.1	55.9	7.8	19.8	12.0	2.0	58.4
1975	100	48.2	51.8	7.9	16.4	14.5	2.9	58.3
1980	100	68.6	31.4	5.7	9.2	19.2	1.3	64.6
1985	100	53.3	46.7	4.4	8.7	26.0	1.3	59.6

¹ Inclusive of organizations without sale purposes

Source: Duvigneau and Schönefeldt (1989: 23), Statistisches Bundesamt, Fachserie F 5, Reihe S.1

5.4 The development of housing policy in the period 1970-90

5.4.1 Background

After the Second World War the FRG was facing a housing shortage far greater than that of other European countries. By 1950 it was estimated that the FRG had approximately 5.5 to 6 million too few dwellings (Leutner and Jensen, 1988: 146; Duvigneau and Schonefeldt, 1989: 4). This shortage was a result of both war damage (one-fifth of the total housing stock had been destroyed during the war) and the influx of refugees (some 13 million refugees moved to the FRG from eastern Europe). The acuteness of the situation may be gauged from the fact that in 1950 the FRG had a population of 47 million and the number of households was 15.3 million. Only 9.5 million dwellings were available, however, to house these 15.3 million households. The result was that about one-third of the population had to sublet from others (Wynn, 1984: 56). As in the Netherlands, reducing the housing shortage was considered to be an important function of public authorities. As part of an attempt to reduce the housing shortage, the I. Wohnungsbaugesetz (First Housing Act) was passed in 1950. It introduced a system of rent controls, regulations affecting the distribution of housing, and protection for tenants in both the profit and the non-profit rented sector.

The new housing constructed under this act can be classified according to the method of direct subsidization:

- social housing with state aid (the 1. Förderungsweg);
- housing construction that benefits from certain tax advantages (the 2. Förderungsweg);
- private sector financed housing construction.

The state provided interest-free long-term loans to cover up to forty to fifty per cent of the total construction costs of social housing. In return for these loans, the organizations owning the housing had to accept the following conditions:

- the government was to determine to whom the dwellings were allocated;
- the rate of interest was fixed by the government;
- strict rules applied to changes of tenancy (tenants' protection);
- there were minimum requirements concerning the size and quality of the dwelling.

Unlike in the Netherlands, subsidies for the construction of social housing were made available not only to non-profit organizations but, in an effort to alleviate the housing shortage as quickly as possible, also to others who accepted these conditions. This was an attempt to encourage private investors to invest in social housing, and it largely succeeded. Apart from having the beneficial effect of stimulating housing construction, however, there were certain less desirable aspects to this development. Many problems that currently beset housing in the FRG, such as speculation and the concentration of housing capital in a few hands, can be traced back to this impetuous period of new housing construction. Further, the social housing financed by private investors is subject to the conditions laid down in the act for only some twenty-five to thirty years. After that period this housing is no longer subject to rent controls and the government

loses control over its allocation; the housing ceases to be part of the social housing sector and becomes part of the private sector.

Jaedicke and Wollmann (1990: 143) have suggested that government housing policy since the Second World War has been strongly directed towards maximizing the level of new housing construction and that the distributional effects of this policy have hardly been considered. The result was that those in average- and high-income groups particularly have occupied social rented housing. In particular, the private landlords, who control an important part of the social rented sector, have in the past preferred to house those on average incomes (who are considered to be a low-risk group). The introduction in 1982 of the rent tax (*Fehlbelegungsabgabe*) and the subsequent implementation of other measures have been attempts to correct this feature (see section 5.5).

Since the Second World War some 3 million social rented dwellings have been built in the FRG (Hasselfeldt, 1989: 441). The pattern has been irregular however. During the 1960s 41% of all new housing constructed was social rented housing; in the 1970s the corresponding figure was less than 30%, while in the 1980s it continued to fall and by 1987 amounted to only 25%.

In 1990 some thirty per cent of households in the FRG were eligible for social rented housing subsidized under the first *Förderungsweg*. Under the second *Förderungsweg* certain tax exemptions were provided for a period of twelve years to help cover housing construction development costs. In particular, houses built under this scheme were exempt from property tax for a period of ten years. Since 1967 direct subsidies have been provided. These subsidies are only available if the housing is allocated to households whose incomes are at most forty per cent above the threshold below which households are eligible for social housing. The character of the subsidies under the second *Förderungsweg* has altered over the years. In the first half of the 1970s it was above all rented housing that was subsidized, while in the 1980s most subsidies went to housing in the owner-occupied sector. The rents for housing built under the second *Förderungsweg* are in general thirty per cent higher than those for housing built under the first *Förderungsweg* (see Papa, 1991).

The term unsubsidized housing is somewhat misleading because here, too, (indirect) subsidies were granted in the past. These tax advantages, which continued up to 1951, could even exceed the level of subsidies provided to the social sector. At present, unsubsidized housing benefits neither from government subsidies nor from direct fiscal measures. In 1990 around seventy per cent of total housing construction in the FRG was unsubsidized.

It has already been remarked that there was a considerable degree of government involvement in housing construction in the FRG after the Second World War. This changed with the implementation of the II. *Wohnungsbaugesetz* (Second Housing Act) in 1956. This act still largely determines the nature of the public housing supply in the FRG (Duvigneau and Schonefeldt, 1989: 9). In its promotion of owner-occupation, the act marked an important point of departure in German housing policy. It also signified, however, the first indication of the withdrawal of the government from housing provision. Subsid-

ies were increasingly directed to low-income groups, while the emphasis was switched from the rented to the owner-occupied sector. The nature of the subsidies changed too. Long-term government loans at low rates of interest were replaced by loans directly financed by the capital market, and the interest on these was partly paid by the state for a certain period of time. According to Leutner and Jensen (1988: 151), this change amounted to a fundamental revision of housing policy that to some extent is responsible for present housing problems. The limited period for which the subsidies were granted resulted in sudden increases in rents for social housing, and, in addition, considerable inconsistencies in the pattern of housing rents. Moreover, since they represented fixed commitments, the new housing subsidies constituted a heavy drain on public expenditure; further, it meant that the cost of subsidies to older dwellings strongly influenced the level of new construction each year.

The withdrawal of the government and the gradual relaxation of rent controls led to a rapid increase in rent levels in both the private and the social rented sectors. In order to mitigate the effects of these rent rises a system of housing benefit (Wohngeld) was introduced in 1965.

5.4.2 The period 1970-82: housing policy under the Social Democrats and the Free Democrats

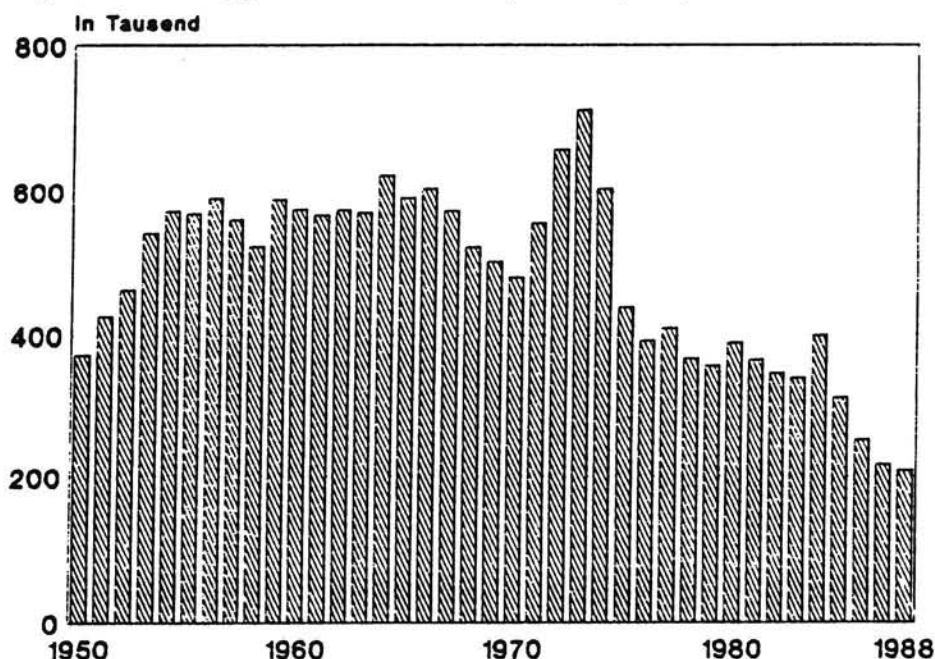
In this section we shall consider the most important housing policy objectives of the four administrations in power between 1970 and 1982. In this we have drawn heavily on the recent work of Leutner et al. (1990), in which post-war German housing policy is extensively analysed.

Since 1960 housing policy in the FRG has been characterized by deregulation and a decreasing role for the government. After 1970, however, government involvement in housing increased. During the period 1970-82 this new policy was shaped by a changing series of coalitions between the Free Democrats (FDP) and the Social Democrats (SPD). The SPD-FDP coalition government that governed the FRG between 1969 and 1973 introduced a reform programme that included land use and housing policy. In view of the large increase in the demand for housing, much attention was paid to increasing the stock of social housing and to protecting lower-income groups against the effects of the considerable rent increases in this period. The then Chancellor, Willy Brandt, declared that the government's aims were to:

- encourage owner-occupation among broad strata of the population;
- develop a long-term programme of social housing construction that reflected the housing desires of their occupants;
- improve housing benefit.

The central aim of the housing policy of the Social Democrats at the beginning of the 1970s was to enable households to choose housing that reflected their housing desires and their level of income (Leutner et al., 1990: 185). Partly as a result of high inflation, these aims led to a house building boom. Around 661,000 dwellings were constructed in 1972, while by the following year this figure had increased to 714,000 (see Figure 5.2).

Figure 5.2 Housing production in the FRG, 1950-88 ('000s)



Source: Leutner (1990)

During the following period of administration, again under Brandt, a lower priority was given to housing construction, partly on account of the enormous numbers of houses constructed in the years 1969-73. The government chose instead to give land use policy and urban planning a higher priority. The policy pursued hitherto, whereby increasing emphasis was put on housing benefit and on the quality of new construction, was continued. Moreover, the government supported increasing the proportion of subsidies being provided for social housing in the owner-occupied sector to about fifty per cent of total subsidies (at that time about one-third of social housing was owner-occupied). The Schmidt administration that came to power in 1976 radically altered housing policy. The background to this was the first oil crisis, which led to pressure to reduce government expenditure, the rapid increases in public expenditure on social housing construction, and the increase after 1973 in the number of vacant houses in parts of the rented and the owner-occupied sectors.

Housing policy no longer aimed to relate the house-building programme to broad strata of the population; instead the government was concerned to concentrate on groups that had up till then been neglected in housing provision (in particular those on low incomes, families with many children, the elderly, ethnic minorities and the handicapped). As part of this policy, the government

switched resources from supply subsidies to demand subsidies and from subsidizing new construction to subsidizing improvements.

These policy changes did not go far enough for the Christian Democrat (CDU) and Christian Socialist (CSU) opposition. They advocated providing subsidies only where absolutely necessary and further promoting owner-occupation (by, among other things, improving the system of Bausparen). They argued that supply subsidies should be cut back, and that families with children and those on low incomes should be assisted, in general, under the housing benefit system. This approach is similar to that of the VVD in the Netherlands in the 1970s (see van der Schaar, 1987: 99). In the Netherlands the Christian Democrat-Labour coalition government finally opted for a hybrid system of subsidies (see section 3.4.2).

During one of the last periods of government (1976-80) in which the SPD was responsible for housing policy, Schmidt was also Chancellor. This period was characterized by a fall in both interest rates and the housing construction programme (which was reduced by ten per cent during the period 1975-76). In the social housing construction programme dwellings were increasingly subsidized under the second *Förderungsweg* (which was increasingly used to promote owner-occupation). In 1976, for the first time since the Second World War, it was reported that the number of dwellings was equal to the number of households. This was used as an important argument to justify the cutting back of subsidized housing construction programmes even further. The Schmidt administration inaugurated a new period in housing policy, one that placed an emphasis on housing improvements and repairs, particularly in old urban residential areas. It used tax subsidies to promote these objectives.

The last SPD-FDP coalition government, which governed the FRG between 1980 and 1982, faced a sharp rise in interest rates; interest rates increased to beyond ten per cent and the financial resources available to the government became increasingly limited. The Schmidt administration tried to compensate for this by gradually introducing a more market-oriented approach to housing policy in order to increase the number of houses being constructed, in spite of rising construction and financing costs. To this end the legislative framework governing private sector financing of housing construction was revised. The procedures for determining rents and for transferring properties from the rented sector to the owner-occupied sector were simplified. Rent protection legislation remained intact, however. As in previous periods, housing benefits were adapted to take account of changes in rents and incomes and they were increased in scope. These revisions are not made annually, as in the Netherlands, but only after a number of years (see Papa, 1991).

In line with the government's aim of concentrating housing assistance on particular target groups, 1982 saw the introduction of the *Gesetz über den Abbau der Fehlsubventionierung im Wohnungswesen*; this act stipulated that tenants of dwellings built with government subsidies whose income exceeded by more than twenty per cent the income limit laid down by law for renting a social rented dwelling (at the time of allocation) had to pay a levy. It was noted earlier



that in the past many of those on average incomes have profited from the government's housing policy and mostly occupied rented housing in the social sector. The act left the decision on whether or not to introduce this rent tax to the states. The money raised by the levies was given to the states and had to be used to build additional social housing. The act was eventually introduced in five states. The tax was imposed in municipalities with more than 300,000 inhabitants and in municipalities that, in combination with other larger municipalities, constituted for the purposes of the tax an administrative region. The tax could be levied when the rents of most social rented housing were significantly lower than those of "non-cost-related" private rented housing. Papa's study on housing finance (Papa, 1991) deals with this in greater detail.

Although there was still a SPD-FDP coalition government, there followed a period of more liberal housing policy. It was shaped by the then Minister for Economic Affairs, Lambsdorff. He advocated a reorientation of housing policy to permit a greater degree of market and commercial freedom. These proposals were implemented later in the 1980s by a CDU-CSU-FDP coalition government. The character of housing policy in the FRG during the period 1970-82 can be summarized as follows. At the beginning of the period of SPD-FDP coalition government in 1969 the social housing construction programme was considerably expanded, intensive discussions took place on the question of land use policy and a far-reaching degree of protection for tenants was introduced. By 1980 housing policy had quite different objectives. It now emphasized the promotion of owner-occupied housing. The government was prepared to support housing construction only in cases of necessity or for particular target groups. Compared with the beginning of the 1970s, housing was obviously on the political defensive. Leutner et al. (1990: 243) have suggested the following explanations for this volte-face. First of all, the overall political culture of this period became more market oriented. In particular, the FDP opted for such an approach. Secondly, the oil crises of 1973 and 1978 had a major effect on both economic policy and the spending power of individual households. At the beginning of the 1960s there were seemingly hardly any financial limits to policies of reform, whereas at the end of the 1970s the reduction of the national debt was the paramount political issue.

Cyclical developments in the housing market, too, have partly determined changes in housing policy. For instance, the number of vacancies in the mid-1970s (after a period of rapid house building between 1971 and 1974 (see Figure 5.2)) and in the early 1980s have strongly reduced the level of housing investment. Therefore in times of partial housing shortages, measures to stimulate housing supply were only possible by means of high levels of subsidies, aimed at specific target groups. Further, measures related to tenants' protection and rent controls have had a strong influence on the level of investment in private sector financed new construction.

Another important change that occurred in this period was the emergence of significant differences in the development of regional housing markets. The problems were increasingly evident in the case of specific target groups in

specific regions (notably in densely-populated areas). Further, the quality of housing assumed a growing importance in this period. Thanks to the many measures aimed at improving the quality of the existing housing stock, the quality of housing clearly improved. The success of these measures led to some of these measures being withdrawn at the beginning of the early 1980s.

5.4.3 The period 1983-89: market developments and decentralization

The period 1983-89 constitutes the fourth period in post-war German housing policy. It was characterized by the view that for large groups of the population the provision of affordable housing could best be left to the free market. Regional inequalities would have to be solved by decentralized measures. Consideration was even given in the mid-1980s to abolishing the Ministry of Regional Planning, Building and Urban Development. In 1949 Adenauer had established a number of ministries whose tasks were carefully specified and whose existence was to cease once their specific tasks had been accomplished. Since the number of households in need of housing in the mid-1980s was equivalent to the number of dwellings, it was argued that the tasks allocated to the Ministry had been completed and that its existence was no longer necessary. The only discussion concerned the question of to where the various parts of the ministry should be transferred.

In 1982 the government outlined a new housing policy; more households were to be encouraged to become owner-occupiers, and government involvement in the housing market was to be radically reduced. The background to this policy was the belief that housing could be better provided by the market than by the government. Social provisions, in so far as they would leave the function of the market intact, would not be entirely omitted. The idea was that, as more investment in housing construction was attracted, the housing supply would increase and, given a similar pattern of development in housing markets in various regions, this would have the effect of slowing down increases in rents. The government was also convinced that an increase in levels of housing construction would not only result in more housing, it would also stimulate other sectors of the economy. On the basis of these arguments the following four principle objectives of housing policy were outlined:

- the promotion of owner-occupation;
- the improvement and maintenance of the housing stock;
- the reduction of regional differences in housing quality;
- the use of social housing construction and housing benefits to ensure a social component to the housing market.

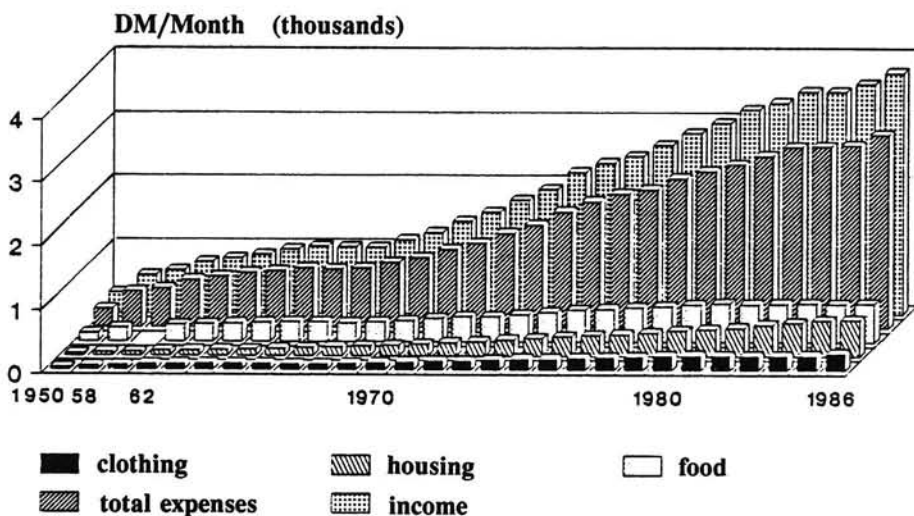
As part of this change, the following policies were introduced: rent controls were relaxed, financial assistance to owner-occupiers was increased (particularly by introducing changes in the income tax system), tax exemptions for social housing institutions were ended, and a further cut was made in the level of subsidies provided for social housing in both the existing housing stock and in new housing construction. The policy of the Minister for Regional Planning, Building and Urban Development, Schneider, was to provide within the social housing

sector subsidies only for owner-occupied housing. Rented housing ought to be built by the states, without any federal subsidies. This objective was achieved in 1987 when the government abolished subsidies for rented housing.

In June 1988 the tax advantages enjoyed by non-profit housing organizations were also abolished. Only the co-operative housing associations (the smallest group within the social rented sector; see section 5.3.2) renting housing to their members continued to enjoy these tax advantages. These changes were preceded by an extensive discussion within the CDU-FDP coalition government (Jaedicke and Wollmann, 1990: 146). Those supporting the retention of the social rented sector proposed to permit non-profit institutions to conclude contracts with municipalities to lease their housing stock to low-income groups. In compensation for this, their tax advantages would then be preserved. The non-profit housing organizations rejected this idea. They did not want the task of providing a housing safety net. Suddenly, and without consulting either the parties involved or even the Minister for Regional Planning, Building and Urban Development, the government decided in June 1988 to abolish all the tax advantages previously available to housing organizations in the social rented sector (with the exception of those to the co-operative associations). In addition, a number of planning and urban development functions previously the responsibility of central government were delegated to the states.

Change were introduced to rent legislation; these had the effect of permitting increases in rents above the rate of inflation (see Figure 5.3). One of the

Figure 5.3 Income and expenditure of an employee on an average income with two children, 1950-86



Source: Leutner et al. (1990)

objectives in changing rent legislation was to increase the number of new houses being constructed. This objective was not achieved, however (see Figure 5.2). On the contrary, the level of housing construction reached a low in 1988 of 208,344 dwellings, a decrease of forty-six per cent on the figure for 1980. This decline occurred in spite of favourable economic development, an increase in real incomes and, in the second half of the 1980s, falling interest rates. Investors were uncertain about future demographic developments and the level of housing demand, and this also played an important role. The decline in new housing construction was most significant in the case of multi-family housing.

After 1982 the level of supply subsidies was cut and assistance concentrated through demand subsidies, particularly housing benefit. This policy was also supported by many states in which the SPD were in power. Both the amount being paid out in housing benefits and the number of recipients rose during the 1980s. Expenditure on housing benefit rose from DM 2.7 billion in 1982 to more than DM 3.4 billion in 1986; the figure for 1989 is estimated at DM 3.7 billion. The number in receipt of housing benefit rose somewhat less, from 1.61 million in 1982 to 1.67 million in 1986. The government considers housing benefit to be the principle instrument of social insurance in its market-oriented housing policy.

The changes to the system of Bausparen (and in particular the tax changes introduced in 1985) resulted in the level of construction savings capital increasing considerably (by 25.4% during the period 1984-86).

In general, however, the promotion of owner-occupation in the 1980s met with only modest success. The 1987 census showed that the proportion of occupiers had increased only slightly to some forty-two per cent. To a great extent this can be explained by the fact that in general many new households (solitaries and immigrants) wanted rented housing.

Radical reforms were made to the tax system in 1987 however. The owner-occupied dwelling was no longer regarded as an investment good, but a consumption good. This put an end to tax relief on mortgage interest and to the tax on the rentable value of a property. By introducing the Baukindergeld (a tax allowance for owner-occupiers with children), subsidies within the owner-occupied sector were focused on the family. Those owner-occupiers who are tax payers and who have at least two children are eligible for the Baukindergeld for a period of eight years. Under the scheme, the government provided a tax allowance of DM 600 per child for the second child and any subsequent children. On 1 January 1990 the Baukindergeld was extended to cover all children, and the allowance was increased to DM 750 (see Haffner, 1990: 114-115).

Leutner et al. (1990: 299) suggest that it is unclear to what extent these changes have influenced the owner-occupied sector. The proportion of owner-occupiers remained fairly stable in the FRG during the 1980s. The original objective of having half the total housing stock in the owner-occupied sector has not been achieved. New households (including many young people, foreigners and refugees) seem to make this objective difficult to realize, and German unification will make it even more difficult. One should also realize though that the average

home in the owner-occupied sector in the FRG is quite different from that in, for instance, the Netherlands. The average price of a house in the FRG in 1990 was DM 450,000, they are more than fifty per cent larger than in the Netherlands, they always have a cellar, and they are almost always either detached or semi-detached. Purchasing a house is thus for most households in the FRG an extremely drastic decision to take, one involving many financial sacrifices and one mostly taken in middle age.

In summary, in the period 1983-89 there was a major change in housing policy in the FRG, one that involved a greater role being given to the market and the decentralization of government responsibilities. This change did not occur without problems. In many regional housing markets problems emerged (and in the social rented sector, where cost price rents rose beyond market rents), population projections were forecasting a population decline in the FRG, there was a great discrepancy between the costs of constructing new housing and initial rent levels, real incomes stagnated, unemployment increased, and there was a general pessimism about future prospects. On account of these factors the expected yield on private sector investment in housing construction was low. According to Eekhoff (1989: 372), the price of existing houses declined by twenty per cent between 1984 and 1986 (and in certain regions by as much as forty per cent).

As a consequence of the withdrawal of the government from housing provision and the cautious stance being taken by private investors, the number of new houses being constructed in the FRG slowed down significantly, and in the second half of the 1980s rents for non-subsidized new housing increased much more rapidly than the rate of inflation. The result of these developments, combined with an increase in the population, was that by the end of the 1980s there was once again a housing shortage, and house prices rose sharply. In 1990 house prices increased on average by no less than twelve per cent.

5.5 Housing policy in the early 1990s

The early 1990s have witnessed a new period in German housing policy. The shortage mentioned earlier, particularly in some specific sectors of the housing market, has led the CDU-CSU-FDP coalition to introduce a number of changes to the housing system.

In this section we shall summarize some of the most important changes that have been made. Particular attention will be given to a policy document published by the Minister for Regional Planning, Building and Urban Development in September 1989 (Hasselfeldt, 1989), the advice given by the Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Lage (an economic advisory committee), and the policy intentions of the government as published in March 1990 (Bundesminister für Raumordnung, Bauwesen und Städtebau, 1990). The main objective of the current government's housing policy is to build one million new dwellings between 1990 and 1993.

The 1989 policy document acknowledged that housing market conditions had changed considerably in the FRG in the two years prior to its publication, and that the housing supply was insufficient to meet the growing housing need. Until 1987 the number of vacant properties was reasonably large, and tenants had a great deal of choice. Landlords were even prepared to offer holidays, grants and reductions in rents in order to try and dispose of their vacant stock. In this situation rents were relatively stable. By 1991, however, there were serious housing shortages, particularly in the large cities; this is evident from the use of hotels, bed-and-breakfast accommodation, even sports halls, and from rent increases. Rented dwellings were increasingly sublet too. This problem has worsened because of the enormous increase over the last two years in the number of refugees moving to the FRG from the (former) GDR (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Lage, 1990: 317). The problems are greatest for the poor. That is why the government's housing policy targets assistance on these groups. In this respect, there is some similarity with housing policy in the Netherlands, which also targets assistance on specific groups.

The sudden realization of the extent of the housing shortage led to shock waves in the FRG and to the replacement of Schneider as Minister for Regional Planning, Building and Urban Development. Until 1988 it was assumed that there was a housing surplus of about 100,000 dwellings; in fact, as the 1987 census revealed, there was a shortage of one million (Eekhoff, 1989: 371).

The reasons for this rapid change in the housing market situation are varied. The number of new houses being built had declined, but at least as important was the fact that the number of households had increased significantly as a result of a decrease in household size and a rapid growth in the number of students and immigrants. Average household size in 1970 was 3.1, compared with only 2.3 in 1987. The proportion of one-person households increased much more quickly than had been expected. In Hamburg (a city of two million inhabitants) 50% of households contain only one person. The average living space per inhabitant has increased considerably from 24 sq m in 1968 to 35.5 sq m in 1987 (Eekhoff, 1989: 371; Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Lage, 1990: 317). The Sachverständigenrat argues that the quality of the housing stock in the FRG is among the best in the world, and that people spend a considerable proportion of their income on housing. Expenditure on rents (or the rental value of an owner-occupied house) as a proportion of total personal expenditure rose from 12.2% in 1979 to 15.7% in 1988 (excluding energy costs). This increase was possible on account of the fact that real incomes rose by a similar amount during the same period.

In order to ameliorate the housing shortage, radical changes were introduced to the government's housing policy in the autumn of 1989 and measures were taken to increase the number of new houses being constructed. The government declared its main objective to be the development of a sound investment basis for housing construction. The government argued that only by increasing the supply of housing could the bottlenecks in the housing market be overcome

(Hasselfeldt, 1989: 439). To this end various measures were introduced to encourage the construction of new housing, and the social role of the government was given greater emphasis. Much uncertainty continues to exist, however, about the level of mid- and long-term housing demand. It is assumed that, after a time, some of the millions of migrants from what used to be the GDR will return to the cities and towns from which they came. When, and how many, is difficult to predict. It will depend to a great extent on the degree to which the GDR is successfully integrated into the economy of the FRG. Currently, however, there is a considerable degree of inequality in the population densities of the GDR and the FRG. The GDR has a population density only half that of the FRG. It is therefore unclear whether the enormous construction programmes now being drawn up will not produce considerable housing surpluses within five to six years. It seems certain, however, that the difference in the population densities of the two areas will decline over time.

Most recent research has concluded that German reunification will not, for the time being, stop the flow of migrants from Eastern Europe. The German Institute for Economic Research assumes that before the year 2000 two million Aussiedler will have emigrated to the former FRG.

As part of its attempts to increase the level of new housing construction, the federal government has implemented the following measures. Firstly, private investment in housing construction has been encouraged. Much of the subsidized housing construction in the FRG is financed by the private sector (which is subsidized indirectly by the government through the tax system). It was deemed important therefore to improve investment conditions for private capital. The tax treatment of investment in rented housing has therefore been improved (see Table 5.2). The period of has been reduced from fifty to forty years, and the rate of depreciation has been increased for both social rented housing and for private sector financed housing construction. These changes benefit investors particularly in the first few years (hitherto it had been difficult to make a profit within the first few years of any investment).

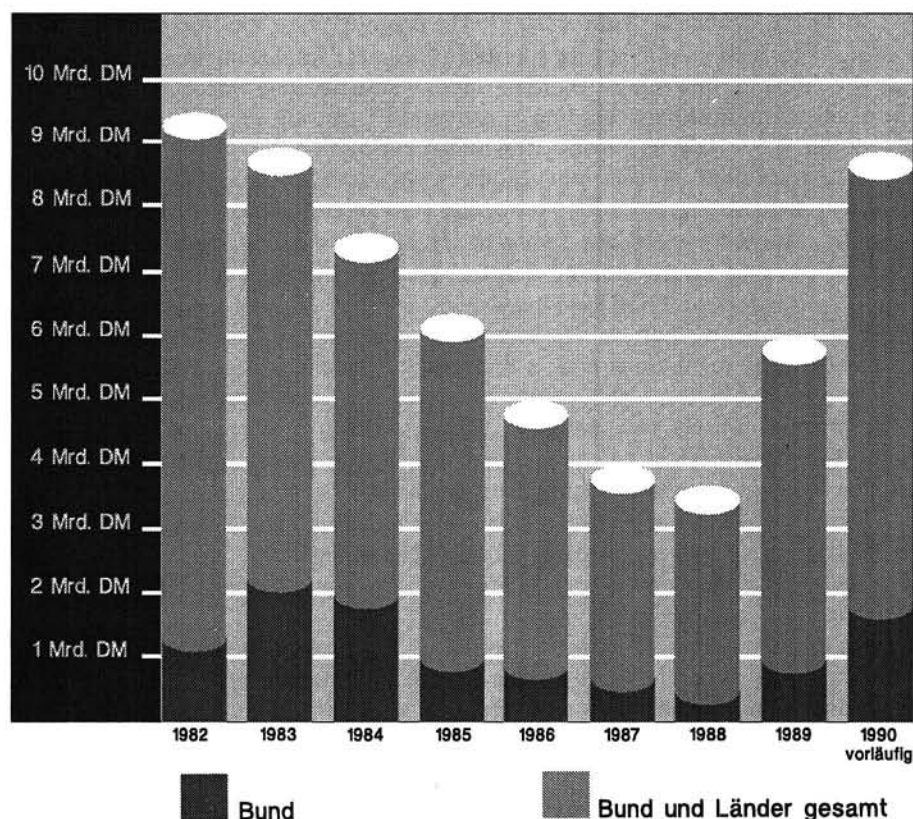
Furthermore, expenditure on direct subsidies for social rented housing increased from DM 1.05 billion in 1989 to DM 2 billion in 1990. Moreover, it is assumed that the states and the municipalities will increase their subsidies by a

Table 5.2 Changes in the tax treatment of investment in the construction of rented sector housing

Number of years	Cumulative depreciation (%)	
	(old system)	(new system)
4	20.0	28
10	45.0	58
16	57.5	70
40	87.5	100

Source: Hasselfeldt, (1989: 440)

Figure 5.4 Level of subsidies provided for social housing construction by the federal government and the states, 1982-90, in current prices (DM)



Source: Bundesminister für Raumordnung, Bauwesen und Städtebau (1990: 7)

similar proportion (see Figure 5.4). This means that housing construction subsidies will have more than doubled within three years. In addition, it is envisaged that the federal government will continue to subsidize social housing construction to the tune of DM 2 billion per year until 1994.

Compared with the original proposals of the government, this new programme means an additional DM 3.5 billion being made available over four years. Including the subsidies of the states and the municipalities, the total level of subsidies available for each of the years between 1990 and 1993 is DM 10 billion. It is hoped that with these DM 40 billion, about half a million new social rented dwellings will be built (Bundesminister für Raumordnung, Bauwesen und Städtebau, 1990: 7). As noted above, the main objective of the present government's housing policy is to have built within three years around one million new

dwellings. About twenty-five per cent of new housing construction will be built in the social sector. Most of the new housing envisaged will therefore have to be realized by the private sector without government subsidies.

The latest evidence, from early 1991, suggests that the intended level of housing construction will not be realized. The most important reason for this is that the level of new house building in the unsubsidized sector is insufficient. The level of unsubsidized housing construction is mostly determined by market factors and is scarcely responsive to government influence.

The government is also endeavouring to increase the housing stock by modifying the existing stock (by converting commercial premises, using attics, for example). Another reason for trying to modify the existing stock is the uncertainty concerning future housing demand (i.e. the numbers that will eventually return to the former GDR). In particular, the use of attics might offer some relief to the young and to students. The government has therefore relaxed certain building regulations and is encouraging municipalities and landlords to explore the possibility of attic accommodation. The government is more prudent in developing entirely new building locations, which first require the development of expensive infrastructure. These conversion projects are quantitatively few however; the emphasis continues to lie on new housing construction.

Another of the government's policy objectives was established in the 1980s: the promotion of owner-occupied housing. Today, however, is it not the direct advantages of owner-occupied housing that are now stressed, but its indirect effect on housing mobility.

Besides introducing a number of measures to increase the supply of housing, the social objectives of the government have also been emphasized. The most important change concerns a new method of subsidization; the so-called *ver-einbarte Förderung*, or interchangeable subsidy.

Under this system the federal government gives the individual states and municipalities greater flexibility. The duration of the subsidy, the level of the subsidy, changes in rent levels, and the conditions attached to investment can be negotiated freely. The authorities may select the developer that can build the dwellings with the lowest subsidy. The rent can also be adapted to account for the income of specific target groups, or specific investment conditions can be imposed; these can affect to whom, on which terms and during which period a dwelling can be let.

In some cases the restrictions on those with incomes in excess of a certain limit moving to social housing can be waived. The mobility of those elderly in large houses is now stagnating since these households are often not eligible for (smaller) social rented housing in cases where their incomes are above the threshold stipulated by the government. In such cases, for example, the normal restrictions relating to income could be waived.

Another interesting measure is the extension of the rent tax (*Fehl-belegungsabgabe*, discussed in section 5.4.2). It was originally intended that this act would be in force only until 1992. Since 1 January 1990 the states have been able to introduce this tax in all municipalities in which the rents of newly-built

social rented housing are less than market rents.

The government has also introduced a new type of subsidy for social housing, the Härtefonds (hardship fund). Under this scheme special payments may be made by the Minister for Regional Planning, Building and Urban Development to specific groups (such as large families and the handicapped).

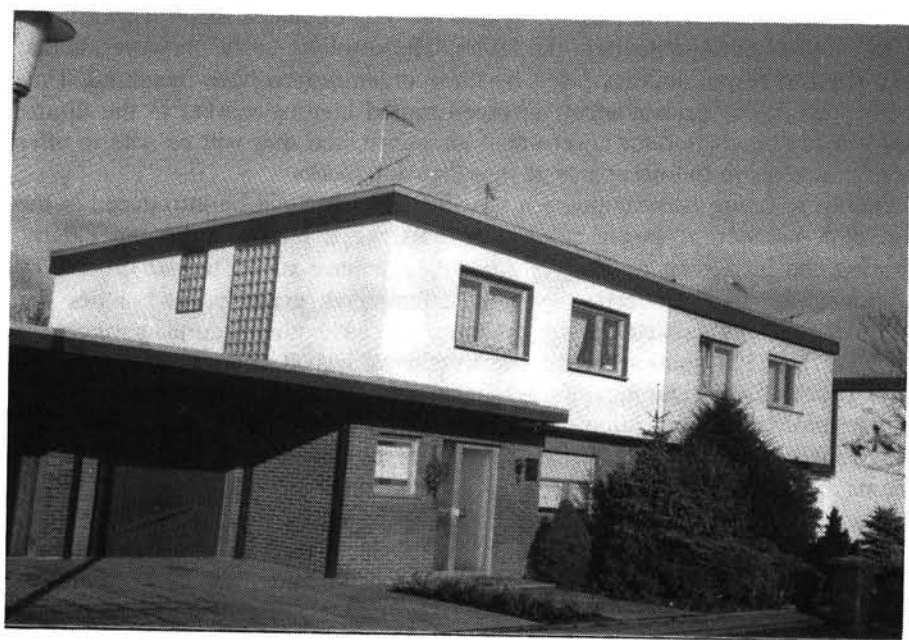
Furthermore, in regions with particularly high rents (25% above the national average), the level of housing benefit that can be claimed has been increased. At present 1.9 million households (12% of all tenants) and 1.5% of all owner-occupiers are in receipt of housing benefit. About 40,000 households in 8 to 10 municipalities or districts can benefit from this increase in housing benefit. Moreover, the level of housing benefit has been increased for those tenants in areas with high average rents. This has benefitted around 58,000 households. The CDU-CSU-FDP coalition has consciously opted for preserving and extending the system of housing benefits. They regard this as the best way of allowing the market-oriented housing policy to function. Like many other European social democratic parties, however, the SPD supports a programme of expanding social rented housing. In April 1991 they proposed a package of measures that would involve an annual expenditure of DM 3.5 billion on social housing in the states that constituted the former FRG, and a further DM 1 billion in the five new states of the GDR. They also wanted DM 660 million per year to be spent on renovation and urban renewal. In addition, the SPD proposed the introduction of a mortgage repayment assistance scheme to enable those building their own home to pay the high rates of interest (Bouwer, 1991).

As in the Netherlands, non-profit institutions have become subject to fewer controls, and the legislative restrictions applied to these organizations have been considerably reduced. The purpose behind this was to enable these organizations to act more as entrepreneurs in the future. The corollary to this, however, is that the risks and responsibilities faced by these organizations have increased. Thus in investing in the private sector financed rented housing market in the future, they will not be eligible for government assistance, and they will be able to offer specific services to the occupants of their housing blocks.

Finally, in future housing policy a specific distinction will be introduced in the case of a number of target groups: students, large families, and the elderly. Housing the increasing number of students will have to be tackled mainly by converting existing properties (vacant commercial premises and attics for example) and by subletting. In addition, in 1990 the federal government provided DM 300 million for the construction of 20,000 student rooms, and the states provided the same amount. A similar amount is being proposed for 1991 (Bundesminister für Raumordnung, Bauwesen und Städtebau, 1990: 14).

Moreover, a series of advertising campaigns has been launched to encourage tenants and home owners to sublet to students.

Those families with many children have also benefited from recent changes in housing policy. The level of the Baukindergeld was increased on 1 January 1990 to DM 750, and the level of housing benefit was increased for each additional child. Housing aid to the elderly mainly takes the form of providing information



about the types of housing available, and supporting experiments into new forms of housing designed for the elderly.

A specific problem in the FRG is presented by the sale of social rented housing. In the case of social rented housing the obligation to charge rents at a level sufficient to cover building costs ceases when subsidized loans provided by the government have been repaid. Speculators are therefore able to purchase entire social rented housing blocks, repay the government loans used to finance their construction, and then sell the houses. This sort of speculation effectively enables speculators legally to convert indirect tax subsidies provided in the past into cash. But the states are not always opposed to this. For, by repaying public loans early, the money available to the government and the states is augmented. This argument is somewhat similar to that used by the advocates of the sale of so-called Housing Act dwellings in the Netherlands (Boelhouwer, 1988: 41).

In large cities like Munich, Hamburg, Cologne and Düsseldorf, however, the sale of rented housing to sitting tenants is considered to present a great problem (Bouwer, 1990). In these cities landlords are increasingly trying to sell rented flats and houses to tenants. If the tenants are unwilling or unable to buy, however, they may face notice to quit. The tenants are not obliged to leave within the normal period required under the law. The new owner can occupy the flat or house he or she has bought only after a period of three years. In addition to this period, there is also the legal period of notice required if a tenant is being given notice to quit. The longer a tenant has occupied a dwelling, the longer is the term of notice required.

In an attempt to limit the sale of rented housing and to avoid the threat of increased numbers of tenants looking for housing, in March 1990 the Minister for Regional Planning, Building and Urban Development proposed to increase the period of three years to one of five (Bundesminister für Raumordnung, Bauwesen und Städtebau, 1990: 20).

The decrease in the proportion of social rented housing in the housing stock has resulted not just from the sale of rented housing, but also from the decrease in the proportion of social rented housing in total new housing construction, and from the fact that many of the loans provided by the government to subsidize social housing construction in the 1950s and 1960s have by now been repaid. After the loans have been repaid, the landlords are free to charge market rents instead of cost price rents. They effectively cease to be part of the social housing sector. According to recent estimates, of the four million social rented dwellings in 1984 (sixteen per cent of the housing stock), half of them will have been transferred to the private rented sector by 1995 (van Vliet, 1990). This, of course, runs counter to the aims of the government to improve the position of lower-income groups in the housing market. New housing cannot replace the relatively cheaper rented housing being transferred to the private sector.

In summary, housing policy in the FRG in the early 1990s can be described (Hasselfeldt, 1989: 404):

- The basic outline of housing legislation and the rights of tenants and landlords has remained unchanged.

- The willingness of investors to invest in housing increased with improved tax treatment for investment in rented housing. The government played a role in ensuring that housing investment was able to compete with investment in other sectors of the economy.
- Demand subsidies were increased to help those low-income groups in the housing market;
- By introducing a more flexible subsidy system in the social rented sector, a more appropriate response can be made to the specific problems of various regions.
- In order to optimize use of the social rented housing stock, no income thresholds are now imposed in the case of those moving within the social rented sector.
- A new (supplementary) grant (Härtefonds) has been introduced by the federal government to help specific households with special problems.
- By extending the scope of the rent tax, better-off households in cheap rented housing are required to pay more. The receipts raised are used for constructing new social housing.
- In cities with high rents, the housing benefit scheme has been improved in order to include more households. The value of housing benefit has been increased in those cities where rents are particularly high.
- In order to encourage owner-occupation, the Baukindergeld was raised on 1 January 1990 to DM 750 per child. Other tax subsidies to promote home ownership remain unchanged.

These form the basis of current and future housing policy in the FRG. As a result of these measures, the government hopes to see the construction of about one million new dwellings within a period of three years. On the basis of the most recent census, that of 1987, this number is considered sufficient to alleviate the present housing shortage. In order to achieve these objectives the federal government introduced a series of measures at the beginning of 1990; these included increasing expenditure on social housing construction, greater tax relief for investment on housing construction, encouraging the subletting and conversion of rented housing, higher interest rates on building savings, more subsidies for student housing, more simplified building and planning regulations, an increase in the level of the Baukindergeld, and an increase in expenditure on demand subsidies, particularly housing benefit (Bundesminister für Raumordnung, Bauwesen und Städtebau, 1990: 3).

6.1 Administrative and legal systems

Denmark is a parliamentary democracy with a monarch as head of state. Legislative power and the supervision of executive power rest with the 179 Members of Parliament (Folketing). Since the Second World War Denmark has been governed by broad-based coalitions. The present Parliament contains at least fifteen political parties. As a result, it is always necessary to obtain the support of one or more other parties and, accordingly, to effect a political compromise. The advantage of such a situation is that policies tend to have a broad base of support and that clear discontinuities in policy (as frequently occur in Great Britain and the FRG) can be avoided. An obvious disadvantage is that it is difficult to react speedily and efficiently to new problems and that disagreements between coalition members often lead to a change of government. The result is that Denmark has a general election every year on average.

As with the other countries in this study, there are three levels of administration in Denmark: the national, the county, and the local. In addition, as a result of legislation approved in 1974 and abolished in 1989, a fourth level of administration above that of the county was established for the area around Copenhagen. This area, Greater Copenhagen, covered Copenhagen, Frederiksberg and Roskilde.

The administrative system underwent fundamental reform in 1970. In order to increase administrative effectiveness, local authorities and provinces were reorganized into larger administrative units. The number of local authorities was reduced from 1388 to 275 and the number of counties from 25 to 14. At the same time, a number of functions and responsibilities previously carried out by central government were transferred to these new authorities. This increase in local authority responsibilities was accompanied by greater financial independence.

Central government provides an annual subsidy to local authorities. The level of this subsidy depends on so-called objective criteria. There is also a system of equalization under which a proportion of the revenues raised from local taxes is redistributed between the local authorities.

Central government has, as a general principle, devolved many administrative responsibilities upon the counties and local authorities. The underlying principle behind this is that responsibility for providing public services should lie with the lowest level of administration. This level is determined on the basis of how the services are to be financed and the relationship between these services and the prospective client group (Ministry of Housing and Building, 1988: 13). In this respect there has been a decentralization of responsibility in housing policy, as well as a devolution of administrative functions. Functions such as the fixing of subsidy quotas continue, however, to be exercised by central government. Decentralization was accompanied by retrenchment. For central government greater local responsibility implied a correspondingly greater financial contribution by local authorities.

Mastop et al. (1989: 67) have noted that in fact the independence of local authorities significantly declined during the second half of the 1980s, partly as a result of economic recession. Central government responded to the recession by tightening its own purse strings. Thus while local authorities certainly have more responsibilities, they usually lack the financial resources with which to implement their policies. Furthermore, there have been complaints about the growing distance between the electorate and local government.

Partly as a response to these criticisms, an experiment was introduced in 1986 in 22 local authorities and 5 counties which involved a further devolution of power from central government. This devolution offered no direct solution, however, to the financial problems facing local authorities. The Ministry of Housing also participated in this experiment.

6.2 Environmental factors and environmental planning

Denmark's spatial distribution is determined by the large number of islands that make up the Kingdom. Of the 500 islands only a third are inhabited. Denmark has a population of 5.1 million. It is expected that this will remain stable until the year 2000, after which the population will decline (see Figure 2.2). Along with Sweden, Denmark has one of the lowest average household sizes in Europe at 2.3 (in 1987) (see Table 2.2).

Denmark can be considered a prime example of an agricultural country. Around 67% of land is devoted to agriculture, and another 12% to forestry. After the mid-1970s the rate of urban growth declined significantly. As a result, the need for areas into which cities could expand was considerably reduced. Many of the rural areas designated as urban expansion areas therefore reverted to their original agricultural function.

As in many other West European countries, towards the end of the 1960s criticism was voiced concerning the large scale of the urban expansion and housing development projects taking place. Moreover, greater attention began to be paid to housing conditions and to the environment. An increasing concern to maintain the quality of the environment led to the setting up of the Ministry of

the Environment in 1973. This new Ministry assumed the planning functions previously exercised by the Ministry of Housing and combined a concern for environmental planning with a range of other responsibilities relating to the environment. In addition to a main co-ordinating department, the Ministry consists of five agencies covering nature conservancy, the preservation of historic monuments and buildings, environmental planning, forestry, and food (Haywood, 1984: 189).

As noted earlier, a reorganization of local administration took place in Denmark in 1970, as a result of which the number of local authorities and counties was reduced. As part of this reorganization the new Ministry of the Environment also revised the planning system. Four important pieces of planning legislation were implemented that consolidated existing legislation and introduced new measures. The structure that emerged remains intact. This legislation also aimed to reduce the regional imbalance in economic development (Haywood, 1984: 190).

One of the four acts introduced was the 1973 National and Regional Planning Act. This legislation had its origins in the 1960s when the then Minister for Housing drew up a series of proposals for a reform of local government. These were incorporated into the reorganization of local and regional authorities in 1970. Regional authorities were required to prepare development plans covering a period of twelve years and that brought about more uniform regional development. These plans were to form the framework for subsequent urban development and for determining the extent and situation of summer house areas. Local authorities were required to ensure that their local structure plans were consistent with regional plans. The metropolitan area around Copenhagen, in which 30% of the population lived, was the subject of special separate legislation, reflecting its position as the most important urban region in Denmark.

In Denmark, as in a number of other countries, there is no national structure plan. Policy is formulated in the form of national planning guidelines (the expansion of Copenhagen airport and the erection of antennas for television reception, for example, have been the subject of such guidelines) and the annual statement on environmental policy, in which the Minister for the Environment outlines the government's policy proposals to Parliament (Mastop et al., 1989: 69). The aim of central government is to incorporate its policies into regional and local plans. To this end, by 1988 thirteen national planning guidelines had been issued (Ministry of Housing and Building, 1988: 25).

A second important piece of legislation was the 1975 Municipal Planning Act. This required local authorities to draw up local structure plans covering the whole of their area in which the most important areas of land use are described and the proposed development areas defined. Detailed plans can be drawn up on the basis of these local structure plans. These more detailed plans have to be consistent with the corresponding regional development and local structure plans. No approval is necessary from higher administrative authorities; it is assumed that local authorities will themselves ensure that their policy is consistent with the policies being pursued at a more regional level. Regional and

national authorities can, however, veto proposals if they are considered to be incompatible with specific sectoral interests. If, after consultations with the parties involved, disagreement persists, then the matter is considered by the National Agency for Physical Planning and ultimately the government minister responsible for environmental policy (Ministry of Housing and Building, 1988: 27).

A third important piece of planning legislation was the first Urban and Rural Zones Act. The Act was introduced in 1969 and subsequently amended in 1972 and 1975. This act divides Denmark into urban zones, rural zones and summer house districts. Its general intention was to restrict new development to urban areas in order to preserve rural areas from urbanization and, particularly, from the development of summer house districts (Haywood, 1984: 190). In order to make this proposal practicable, a sufficient supply of land available for urban development had to be designated.

The creation of the Ministry of the Environment in 1973 led to a greater emphasis on redevelopment, urban renewal and renovation. The Housing (Slum Clearance) Act of 1969 had empowered local authorities to demolish or improve poor quality housing. They were also empowered to buy up property. These provisions were extended by the 1980 Urban Renewal and Housing Renovation Act. This Act extended the system of interest-free finance and guaranteed loans, previously only available for new construction, to include housing improvement and urban redevelopment schemes. In 1982 the 1980 Act was revised. As a result of this revision, larger urban areas can be designated improvement areas, and there is greater provision for public involvement.

Mastop et al. (1989: 73) have argued that there are two elements to the policy of urban planning and renewal, one that aims at the design and renewal of urban areas, and the second that relates more specifically to housing improvements. In problem areas the local authority tries to pursue a policy designed to effect the renewal and redevelopment of the area as a whole. After an extensive period of wide-ranging consultations and discussions, a development plan is published and, on the basis of this, urban redevelopment can proceed. It is not necessary to have this approved by central government. The regulations relating to subsidies and their allocation to local authorities are, however, determined by central government. In practice, therefore, local authorities have to operate within the guidelines set by central government.

In areas where no large-scale redevelopment is necessary, local authorities can propose a more limited programme of housing improvements. The instruments available to local authorities here are the subsidies it can grant for housing improvements in the owner-occupied sector, and the authority it has to force owners to make improvements. These instruments are less important, however, than the other three planning acts. In the case of environmental planning, the power of the local authorities to renovate old city areas is more important. In the 1980s the state and local authorities provided subsidies to support the renewal of large-scale housing estates built in the 1960s.

These four acts dealing with national and regional planning, local authority

planning, urban and rural land use and urban renewal have determined the planning framework in which housing policy has been carried out in Denmark during the course of the last two decades (Haywood, 1984: 191). In addition to these, however, other legislative measures are significant, such as the building legislation passed in 1975, and a series of building guidelines published in 1982 and 1985 that also form part of the planning framework. They allow central government, in combination with local structure plans, to exercise control over proposed changes in land use by its ability to grant or refuse building permits (Mastop et al., 1989: 69).

In their evaluation of planning policy in Western Europe, Mastop et al. (1989: 69-70) conclude that, although Denmark has what can be considered to be a sound environmental planning system, with strong decentralized decision making and considerable scope for public consultation, the policy-making process in a number of fields has failed to function as intended. The system is complex, does not necessarily lead to consistency, and sometimes involves a degree of legislative duplication (the Urban and Rural Zones Act and the Municipal Planning Act, for example, under which identical objectives can be achieved). Furthermore, the success of attempts to integrate and co-ordinate sectoral policy by means of environmental planning policy, and particularly by means of regional plans (which in practice have been too detailed), has proved to be limited. Finally, once a plan has been drawn up the subsequent appeals system is confusing. Moreover, it is impossible to appeal against the contents of plans because the consultation procedure that precedes their publication is considered to be adequate. In practice, therefore, to what extent objections regarding local planning proposals succeed often seems to depend on the political influence a pressure group has. In order to overcome these shortcomings, a national commission was set up to review the planning system and planning legislation, and where possible to suggest improvements.

6.3 The organization of the housing market

6.3.1 Housing tenure

Like in Sweden, four types of tenure can be distinguished within the housing market: owner-occupation (55%), private rented (18%), non-profit rented (17%), and co-operative housing (4%) (figures as at 1 January 1988). The remaining 6% relates to other forms of tenure or cases where tenure is unknown. As can be seen from Table 2.20, the proportion of homes in the owner-occupied sector in Denmark is one of the highest among the seven countries considered in this study. Only Great Britain has a larger owner-occupied sector (65%).

Owner-occupation has tended to expand in Denmark, particularly in the period 1955-80, during which the size of the owner-occupied sector increased from 43% to 55%. Owner-occupation stagnated in the 1980s, however, and the proportion of owner-occupiers remained at 55% during this period. This stagnation resulted partly from a crisis in the market for home ownership, such as occurred during

the second half of the 1980s (see section 6.4). After 1978, because of the high level of interest rates, a decline in real incomes for many potential house buyers, uncertainty regarding the course of economic development, and the decline in house prices for existing properties, there was a dramatic decline in the number of new homes built for sale (Ministry of Housing and Building, 1984: 5). The same problems have recurred as a result of the tax reforms introduced at the end of 1986, which led to an increase in the costs of owner-occupation (see section 6.4).

Most house purchasing in Denmark is financed by non-profit mortgage societies. These societies provide fixed-interest loans in the form of bonds. The mortgage societies attract their funds in turn by issuing special bonds to cover these loans on the open market as a form of investment for other companies, individuals, etc. The mortgage interest rate is usually fixed for the period of the mortgage and is determined by current market rates. Mortgages can be obtained for up to 80% of the value of a property. The other 20% has to be provided by savings or by a personal loan taken out over a short period and at a variable rate of interest. Since 1982 it has also been possible to obtain index-linked loans from mortgage societies. Despite the fact that, in general, long-term real rates of repayment under such a construction are lower, little use has been made of them so far. This probably has something to do with the degree of uncertainty attached to them compared with the traditional form of housing finance.

When the house is sold the buyer can take over the outstanding mortgage at the original level of interest. The differences in the levels of interest repayments and interest rates associated with the different properties are normally taken into account in the selling price. For any outstanding amount it is necessary to take out a loan (for a detailed analysis see Papa, 1991).

Unlike with non-profit rented housing, direct subsidies are not available from central government for house purchase. It has been a general feature of government policy for a number of decades that home ownership should be encouraged through the use of tax expenditures, and the non-profit rented sector, home improvements and repairs through direct subsidies (general supply as well as demand subsidies). The result of this policy has been that since the 1950s and '60s (when marginal rates of income tax were increased) the level of subsidies to owner-occupiers has been 100% to 200% higher than the level of subsidies to tenants. Christiansen (1990: 20) noted that, before the tax reforms of 1987, Denmark was one of the countries with the most generous systems of tax relief for owner-occupiers. The fixed rentable value of property was furthermore far too low to erode the advantageous position of owner-occupiers. The sizeable level of indirect subsidies to owner-occupiers also goes a long way to explaining the rapid growth in house purchase in Denmark during this period, and is now regarded by the government as one of the causes of the enormous level of the national debt. Only with the tax reforms introduced in 1987 was this inequality reduced (Ministry of Housing and Building, 1984: 16, 20; Trollegaard, 1989: 4).

The private rented sector accounts for 18% of the total housing stock. The great majority of this was built before 1950. The construction of new homes in

the private rented sector has fallen considerably because of the increase in land prices and building costs and the lack of direct government subsidies (Haywood, 1984: 207). The lack of subsidies for the private rented sector is a result largely of the political ideology of the Social Democratic Party. They repeatedly maintained that it is immoral to be in possession of the home of another (Christiansen, 1990: 20).

Rent control in the private sector has been obligatory in municipalities with more than 20,000 inhabitants. In the other municipalities it is left to the local authorities themselves to decide whether or not rent controls are appropriate. In the beginning of the 1980s more than 80% of rented housing was regulated (today the corresponding figure is more than 90%) (Andersen, 1990). Given the level of economic rents, market rents are often insufficient to make investment financially attractive. If such investment is possible then it is at market rates of interest and financed by loans from mortgage societies for up to 80% of total building costs, repayable over a period of 30 to 40 years. New construction is therefore limited and generally only possible for the highest income groups (Ministry of Housing and Building, 1984: 23).

Since 1966 it has been possible to sub-divide private rented property in blocks of flats and then to offer these flats for sale. Since 1979 there have been restrictions on the conversion for sale of such older rented property built before 1966, but the right to buy on a co-operative basis has been introduced (Haywood, 1984: 208).

Characteristic of the Danish housing market is the high proportion of second homes, which results from the increasing number of well-to-do middle class households. It is estimated that around 10% of Danish households have a second home, which suggests that the number of second homes is 200,000. Having a second home is a long tradition, originating in the last century. One of the oldest organizations providing short-let (4 weeks) homes is the Danish National Holiday Association (Dansk Folkeferie), established in 1938. At first only simple summer homes were provided. More recent developments have seen an increasing number of homes of higher quality being built and designed for use throughout the whole year. An even more recent trend has seen the development by these holiday associations of holiday accommodation in warmer southern countries.

In order to stem the growth in the numbers of second homes, a number of regulations and restrictions were introduced in 1972 (see section 6.2). Purchasers of farms of more than five hectares were required to use them as their permanent place of residence and be principally occupied in farming. Many holiday sites have been established, particularly along the coast of Jutland. These homes have been financed in a way similar to first homes and with better facilities and more comfort than the older ones. In order to prevent these from becoming permanent settlements, which would lead to an increasing demand for services, many local authorities have introduced restrictions concerning the length of occupation in a holiday home.

In the last few years there has been a good deal of concern voiced over the

desirability of the large-scale provision of land and resources for homes that are only used for a few weeks in the year. Efforts have therefore been made both by the profit and non-profit organizations involved to ensure that these homes are utilized for longer periods (by renting them out to tourists for example) (Haywood, 1984: 209).

6.3.2 The co-operative sector

The development of the co-operative sector in Denmark is connected to an important extent with the possibility referred to earlier whereby private tenants can purchase their house on a co-operative basis. The co-operative sector, which accounts for 4% of the total housing stock, is thus less developed than the co-operative sector in Sweden, where the corresponding percentage is 15%, but it has won a great deal of public support since the 1980s. The growth of the co-operative housing sector has actually occurred only after 1980, when legislation concerning rented accommodation was revised and landlords obliged to give sitting tenants the option of buying in the event of a subsequent sale of the property (Royal Danish Ministry of Housing, 1988c).

The members of the co-operative own a proportion of the capital of the co-operative rather than a specific dwelling. In order to live in co-operative housing a member is required to finance the costs of the required proportion of the capital. This is usually done by means of a bank loan. The interest on this loan can, if capital assets (interest, dividends, property, etc.) are taxable, be deducted from one's taxable income. In the course of the 1980s, purchase on a co-operative basis became an attractive alternative to the traditional rented and owner-occupied sectors, and, particularly for first-time buyers, it is financially more advantageous than standard forms of house purchase. Furthermore, many of the elderly who move from a larger to a smaller house often move into a house in the co-operative sector (Royal Danish Ministry of Housing, 1988c).

In order to stimulate this new sector, subsidies were provided in 1980 for the construction of new co-operative housing units. In the last few years the Ministry of Housing has subsidized annually around 4000 new co-operative dwellings. There are conditions attached, however, relating to the maximum costs of the proposed new construction. The fact that the government wants to promote access to the co-operative sector for the general population has led, among other things, to restrictions concerning the maximum costs of membership (the cost of a share in the co-operative). The value of co-operative property is required to be established according to specified rules. As a result of legislation passed in 1985 concerning co-operative housing, a degree of public control over the management of housing co-operatives has been introduced (Royal Danish Ministry of Housing, 1988c).

Chapter 9, which examines housing in Sweden, gives a more extensive description of the operation of the co-operative sector. Co-operative housing has a much longer history in Sweden, and it is also a more significant sector within the housing market than in Denmark.

6.3.3 The non-profit rented sector

In contrast to the co-operative housing sector, non-profit rented housing has a much longer history. Non-profit rented housing has historically been developed by two groups: nineteenth-century philanthropic organizations and, around the time of the First World War, the Danish Trade Union movement. In 1920 the National Federation of Non-Profit Housing Associations was set up (Salicath, 1987b: 19).

The non-profit rented sector expanded rapidly during the 1970s. In 1970 there were 229,000 dwellings in this sector (13% of the total housing stock), while by 1984 the number had grown to 360,000 (16.3% of the housing stock). This growth, which occurred during a period when the number of new houses constructed was stable (Table 6.1), was to an important degree the result of the virtual collapse in housing construction in the private rented sector since the mid-1960s.

Since 1961 the number of new dwellings to be subsidized each year has been determined by Parliament (based on the recommendations of the National Housing Agency). Since 1985 it has also published an outline of the proposed housing programme covering the next three years. In the subsidized sector (which includes co-operative housing) 10,000 dwellings per year were built in the period 1961-67, 12,000 in 1968-70, and 13,000 were built in each of the years between 1971 and 1974. Table 6.1 gives a more detailed summary for the period 1975-90.

The allocation of subsidy quotas by the National Housing Agency is based on the number of requests made by the local authorities each year. Local authorities investigate whether the plans submitted by private developers meet legal requirements concerning non-profit housing construction (including maximum development costs, quality, value for money) (Royal Danish Ministry of Housing, 1988c: 2).

The financing of the public sector in Denmark has been subject to much and frequent change in the last few years. Since November 1982 new construction has been financed on the basis of a system of index-linked loans. Since the revisions introduced in 1990, 94% of building costs can be financed by index-linked loans. Of the remainder, 4% has to be capital finance, provided by the local authority. The other 2% has to be provided by a deposit from the tenants. The subsidy from central government consists of the 4% capital finance, which is interest free and repayable over a long period (at least 50 years). In addition, central government pays the interest charges on the index-linked loans. Thirdly, the government covers a proportion of the repayments on the non-indexed part of the loan. Finally, both central government and local authorities act as guarantors (Vestergaard, 1991: 4).

Rents in the non-profit rented sector are required to be set in such a way that revenues cover expenditure. Expenditures are determined by maintenance costs and by the cost of loan repayments; in recently-built dwellings loan repayments account for around 75% of expenditure. In addition, rents per sq m of living space are also related to the geographical location, the design of the building



Table 6.1 Subsidized new housing completions, by sector, 1975-90

Year	Non-profit sector	Co-operative sector	Youth sector	Housing for the elderly, other	Total
1975	8 000	-	-	-	8 000
1976	8 000	-	-	-	8 000
1977	7 000	-	-	-	7 000
1978	7 000	-	-	-	7 000
1980	7 000	-	-	197	7 197
1981	10 000	-	-	280	10 280
1982	12 000	2 200	4 000	300	18 500
1983	9 700	3 500	-	600	13 800
1984	9 000	4 200	2 000	600	15 800
1985	9 000	4 000	2 000	1 000	16 000
1986	9 000	4 000	2 500	1 000	16 500
1987	9 000	4 000	3 000	750	16 750
1988	10 000	4 000	3 500	2 074	19 574
1989	8 500	4 000	3 000	2 000	17 500
1990	7 000	4 000	2 500	2 000	15 500

Source: Ministry of Housing and Building

(rents for high-rise flats are lower than those for low-rise accommodation because of the difference in approved building costs), and finally by the individual tenants themselves: they can determine the level of the maintenance reserves. The local authority monitors the level of these reserves, and if they are deemed insufficient it can demand an increase in the level of the reserves, by increasing rents for example. Apart from this, the government also sets legal limits to rents, and these are revised every three months to reflect changes in industrial workers' wages. In setting rents, account is taken of whether there are communal facilities; the Danish government wants to encourage greater provision of such facilities (Royal Danish Ministry of Housing, 1988c: 3).

In 1990 there were some 650 non-profit housing associations in Denmark. Around 53% of them were organized as self-governing associations, 40% were non-profit corporations, while 7% were so-called guarantee companies. No new guarantee companies are currently being approved. The characteristic of the corporations is that the tenants are members of the corporation and provide a modest proportion of the capital. The right to a dwelling is dependent on membership. Every new member is allotted a number and, on the basis of this, allocated a place on the waiting list. This system can be circumvented in urgent cases. The difference between a corporation and a self-governing association is that in the case of the latter no capital contributions by tenants are necessary. The associations are also subject to stricter control by local authorities. The chief characteristic of the guarantee companies is that their capital and guarantees are provided by trade unions, other organizations, or individuals. The annual profits that these companies may make is restricted to no more than 5%

(Salicath, 1987b: 51-52).

All these non-profit associations are composed of a parent organization and one or more local divisions (or sections) that operate economically independently and manage their own budgets. The divisions are composed of households resident in dwellings built around the same time and, moreover, concentrated in one area. The number of dwellings within one division can vary between a few and more than 1700. Further, the role of tenants and the rules governing the financing and management of the associations are more or less the same for them all. There are differences, however, in the way investment capital is obtained, in the way in which associations are administered, and the way in which the directors are selected. Finally, the corporations have specific rules relating to housing allocation, rules to which the other two organizations are not bound (Salicath, 1987a; Royal Danish Ministry of Housing, 1988c: 3).

The self-governing associations are the most common. Ultimate control over these organizations rests with local authorities, which take decisions relating to new housing projects, changes in the terms and conditions of tenancies, and the cessation of the associations' activities. In the case of corporations, these decisions are made by the shareholders (the tenants). Ultimately the Ministry of Housing has the final authority in all matters. In practice, control principally takes the form of legislative regulations.

The level of tenant participation is extremely advanced; legislative amendments passed in 1984 enabled further democratization. In general, tenants now elect a majority of the directors of the parent association (as well as the local authority or trade unions). Management of the different divisions within non-profit associations is divided between a board, made up of elected unpaid tenants, and a membership council in which tenants usually have two votes per household. The board determines the budget of the division, and it can also make budgetary provisions for the allocation of general funds and maintenance activities. A number of important responsibilities, concerning things like repairs and renovations and the allocation of heating costs, have to be approved by the membership council. Minority points of view are respected. If a quarter of tenants disagree with certain cost allocations proposed by the membership council, then a referendum has to be held among the tenants (Royal Danish Ministry of Housing, 1988c: 4).

The non-profit associations are open to all sectors of the population in principle. This inclusiveness was consciously encouraged in the past. So the concept behind non-profit housing changed during the 1960s (before many of the middle and higher-income groups had become owner-occupiers) to one that was much more broad; this led to the construction of many large and expensive dwellings for the better-off. In 1972 this change was reversed, and the non-profit sector was restricted to providing dwellings smaller than a certain size, and at rents below a particular level. Consideration now has to be taken in allocating housing of the characteristics of the dwellings and households, and particularly of the relationship between rent and income. In practice, what this entails is that higher-income groups are placed in the more expensive new housing and those

on the lowest incomes in cheaper existing housing.

In 1985 the Ministry of Housing commissioned a report into the characteristics of tenants in non-profit rented housing. In terms of age, they appeared to reflect the general population fairly well. The report did demonstrate, however, that the well-off were leaving the non-profit rented sector. In this sector those households containing only one wage earner, or those unemployed or on low incomes, are disproportionately represented. Thus in Denmark too there is evidence of a growing division within the non-profit rented housing sector (Salicath, 1987b; Danish Ministry of Housing and Building, 1987: 154).

There are strongly organized pressure groups in Denmark, just as in Sweden. Non-profit housing associations, for example, are members of an extremely influential national federation (*Boligselskabernes Landsforening*). Denmark, however, has no powerful tenants' organizations. Because non-profit associations are managed by the tenants themselves, there is no real need for this. Tenants in the private rented sector are organized, though these organizations have a somewhat limited influence on housing policy. Despite the fact that around 55% of dwellings are in the owner-occupied sector, the degree of organization among owner-occupiers is not so significant. There are, however, a number of different political parties (particularly the Centre Democrats) that promote the interests of owner-occupiers.

The construction industry is well-organized in Denmark; it was, particularly in the 1980s, a forceful supporter of the expansionary building policy of the government, and a strong champion of increased government subsidies. As a result of government policies, many new construction firms were set up in the 1980s and they will either have to merge or be re-organized in the 1990s.

The well-organized financial sector (in which there are three important credit organizations) has little direct influence on housing policy. These organizations restrict their activities quite narrowly to their terms of reference: the provision of loans to owner-occupiers, and the issuing of shares.

Van der Laar (1990: 15) has suggested that the policy-making process in Denmark can be regarded as being relatively open. The government consults regularly with diverse ad hoc working parties, commissions and interest groups. In most cases similar ad hoc commissions are set up when new policy issues emerge. Often preparatory studies and research are also commissioned as part of the decision-making process. A recent example is provided by the question of the size of the housing maintenance programme necessary in the coming years to reduce the backlog of repairs. In addition, the approach to the large-scale redevelopment of areas, such as the development of the old harbour area in Copenhagen, is based on a similar negotiation-based planning procedure.

There is no permanent advisory body in Denmark comparable with the RAVO in the Netherlands. There is, though, a liaison commission made up of representatives from within the construction industry; this commission meets between two and four times a year.

6.3.4 The construction industry

As in many other West-European countries, after the Second World War there was a need in Denmark for the development of an efficient and rationalized construction industry. This was necessary because of, on the one hand, the scarcity of raw materials - building materials in particular - and, on the other, the need for new homes to be constructed. In order to modernize the building industry the Danish Building Research Institute (Statens Byggeforskningsinstitut, a private institute until 1987/88) was set up in 1947. This institute proved to be an important force in the development and introduction of industrial building techniques. Its success is apparent from the fact that during the 1970s around 80% to 90% of all high-rise building in Copenhagen and 60% to 70% in the rest of the country was built using these industrial techniques. These techniques were later applied to single-family dwellings, for which prefabricated components were manufactured. Haywood (1984: 193) suggests three factors that have enabled industrial construction in Denmark to develop so successfully:

- the nationally applicable and therefore uniform system of building legislation;
- the development of legislation based on the performance of building specifications and not on specific design aspects;
- the standardization of many building components and attempts by central government to develop a long-term policy for housing supply, through which continuity and stability have been ensured.

Housing construction in Denmark has also been characterized by considerable fluctuations, and after 1970 there was a decline in production from 10.3 dwellings per 1000 inhabitants to 5.2 in 1987 (see Table 2.18). This decline was principally a result of economic recession in the mid-1970s and the saturation of the housing market in the 1980s (Westergaard, 1989: 6). The decline came about through the fall in the numbers of single-family dwellings constructed. In the 1980s there was a recovery in the level of new construction on account of the fall in interest rates, and particularly that after 1983. The stimulus behind this growth principally benefited the private sector (see Table 6.2).

The recovery in housing construction towards the beginning of the 1980s was followed by a further decline after 1987. This trend continued into 1988, when 25,456 dwellings were completed. The decline was a result of the tax reforms introduced at the end of 1986, which led to an increase in the costs of owner

Table 6.2 Housing production by investment category, 1982-87 (%)

Investor	1982	1983	1984	1985	1986	1987
Private sector	45	58	70	74	80	68
Non-profit rented sector	51	39	26	23	18	30
National and local authority	4	3	4	3	2	2
Total	20 768	22 152	26 863	22 613	28 489	27 853

Sources: Ministry of Housing and Building (1988: 66); Westergaard (1989: 7)

-occupation (see section 6.4). Starting costs, particularly in the first few years after purchase, rose (thus restricting access to the owner-occupied sector), and marginal tax rates were reduced - with a consequent fall in the level of tax relief. The results of a working-party on housing imply that the level of housing construction in the period 1990-2000 will stabilize at about 27,000 dwellings per year (Westergaard, 1989: 12).

6.4 The development of housing policy 1970-90

6.4.1 Background

As in many other West-European countries, government involvement in housing increased in Denmark after the Second World War. Unlike in other countries, however, war damage was not the principal motive for this. Subsidies were provided on the one hand to underwrite housing construction and to stimulate employment in the construction industry, and on the other to ensure the provision of adequate housing for those on low incomes and other disadvantaged groups in society (Ministry of Housing and Building, 1984: 16).

In order to realize these aims, after 1945 a number of measures were implemented that were intended to utilize the existing housing stock more efficiently, increase levels of housing construction, and to set up a number of housing organizations. An important step was the housing legislation passed in 1947, which made grants available for all forms of housing irrespective of the income of the occupier, landlord or tenant. In the same year the government established the Ministry of Housing and the Danish Building Research Institute (see section 6.3.4). Their most important responsibilities were to develop, introduce and disseminate industrial building techniques. The government saw an opportunity here to introduce industrialized housing construction on a large-scale, particularly by making the provision of subsidies dependent on the use of such techniques. In addition, smaller housing associations were encouraged to amalgamate so that they were better organized to undertake the construction of larger complexes. Alongside large-scale housing construction projects there were also smaller associations involved in small-scale single-family dwelling projects and influenced by the Garden City movement in Great Britain. Characteristic of the Danish situation was the fact that considerable attention was paid to the provision of communal facilities (nurseries, restaurants, laundries, etc.). Behind this lay an ideological concern to give more freedom to women and thereby enable them to engage in paid work.

Towards the end of the 1940s around 90% of all housing was constructed with the assistance of subsidies from the government, with half of all new housing being realized by non-profit associations (Haywood, 1984: 183-195). After the mid-1950s there was a change in government policy when it became clear that subsidies were leading to high levels of public expenditure (see Table 6.3). There was therefore a reconsideration of the tasks of central government. Restrictions enforcing rent controls and the allocation of housing were relaxed.

Table 6.3 New housing completions, by sector (%), and the average size of new housing units (sq m), 1950-85

Year	Total new construction	Non-profit rented sector	Private sector	Government	Sq m
1950	20 402	37.9	53.6	8.5	81
1951	21 538	39.3	52.2	5.2	86
1952	19 010	41.1	54.4	4.5	82
1953	21 336	37.3	60.0	3.7	86
1954	23 302	31.1	64.2	4.7	88
1955	29 982	32.2	64.7	3.1	86
1956	27 793	26.3	69.9	3.8	85
1957	26 538	42.3	50.9	6.8	82
1958	20 950	37.1	59.4	3.5	85
1959	26 249	34.7	62.7	2.6	87
1960	28 043	21.9	74.3	3.8	87
1961	31 623	18.0	79.6	2.4	88
1962	33 407	22.0	75.9	2.1	94
1963	33 423	26.4	72.3	1.3	96
1964	38 912	27.7	70.6	1.7	97
1965	40 544	21.5	76.0	2.5	102
1966	39 605	25.9	71.8	2.3	102
1967	44 327	24.3	74.6	1.1	106
1968	44 710	30.8	67.6	1.6	104
1969	49 691	27.5	70.4	2.1	116
1970	50 582	27.3	70.5	2.2	122
1971	50.169	27.9	75.3	2.8	126
1972	50 006	24.4	73.5	2.1	140
1973	55 566	23.2	76.2	0.6	145
1974	48 595	23.5	72.6	3.7	151
1975	35 510	24.4	74.1	1.5	151
1976	39 218	23.1	76.1	0.8	158
1977	36 276	17.7	81.2	1.1	163
1978	34 218	16.1	82.2	1.7	163
1979	31 064	15.6	83.4	1.0	167
1980	29 187	22.7	75.2	2.1	168
1981	21 925	30.8	65.6	3.6	144
1982	20 768	48.7	46.7	4.6	104
1983	22 152	43.5	53.2	3.3	103
1984	26 725	34.5	62.0	3.5	108
1985	22 867	28.9	67.7	3.4	97

Source: Westergard (1989: 7)

The most important changes were implemented in 1958 with the setting up of a number of non-profit mortgage institutions and the complete withdrawal of the government from the mortgage market. Based on these new arrangements, private borrowers were able to obtain, under insurance guarantee arrangements, loans to cover up to 80% to 85% of the costs of construction. With this, direct subsidies for private sector new construction ceased. A significant proportion of the costs of owner-occupation, however, remained subject to tax relief. Given

the high marginal tax rates in Denmark, which were increased in 1950 and in 1960, this led to considerable levels of indirect subsidy. Until then, indirect tax subsidies had been of only limited significance (Ministry of Housing and Building, 1984: 16).

A new system of subsidies was also introduced for the non-profit rented sector. The government introduced a system of guaranteed mortgages, under which non-profit housing associations were able to borrow up to 94% of the construction costs of new rented housing. Moreover, the interest rate on the loan could be fixed for a period of six years. Private sector landlords were also able to take advantage of this scheme. In order to limit the costs of subsidies the government set an annual quota for the non-profit housing sector of 10,000 dwellings. The result was a fall in the number of new houses built in this sector. This was compensated for by an increase in the size of the private house-building sector. Despite the decline in the subsidized house-building programme, the number of new homes constructed increased as a result of the new subsidy system from around 20,000 dwellings per year in the early 1950s to around 28,000 in 1960 (Table 6.3).

6.4.2 The period 1966-73: policy reforms

Despite the fact that the number of housing completions grew steadily during the period 1950-65, the Social Democrat led coalition government recognized the need to ensure a closer match between supply and demand in the housing market. Because Denmark is governed by broad coalitions, it was necessary for the Social Democrats to compromise with three non-socialist parties. This compromise involved a series of proposals covering a period of eight years (1966-74) that aimed to reform the housing market. The proposals were intended to bring about an uncontrolled and unsubsidized housing market during this transition period, freed from government intervention. This remarkable endeavour by the Danish Social Democrats is in stark contrast to the policies pursued by their counterparts in other Scandinavian countries (see, for example, Chapter 9 on Sweden). It was hoped that the effect of market forces would be to reduce the differences in rent levels between the private and the non-profit rented sectors. The proposals contained five elements (Haywood, 1984: 186):

- in order to bring about greater equalization, rents for older properties were to be raised and those for new properties reduced;
- the imbalance in the levels of subsidization of the non-profit housing sector and the commercial sector was to be reduced by limiting levels of tax relief for owner-occupiers;
- initial rents in the non-profit rented sector were to be reduced by the introduction of a new subsidy that would absorb any interest rate charges above 6% for a period of four years;
- the introduction of a system of rent rebates based on the level of rent, income, and household composition;
- the rising level of building costs was to be checked; these were extremely high at the beginning of the 1960s and rose much more rapidly than income. It

was suggested that a system of fixed prices and specific deadlines be established for all subsidized building programmes.

To bring about greater equalization between rents for older properties a specific rent harmonization programme was introduced. Rents were increased by one-eighth of the difference between their 1966 levels and, taking into account the quality of the dwellings, the desired rent levels in 1974. As a result, private sector rents increased by 40% above their 1965 level between 1966 and 1974, and those in the non-profit sector rose by 20% (Ministry of Housing, 1983: 6). Despite these measures the rent harmonization hoped for was not achieved.

This failure was largely due to continued increases in levels of interest rates and building costs. The result was that the difference between rent levels for older properties and those for new dwellings widened, and that the level of government subsidies (including indirect subsidies) not only failed to decline but actually rose. The combination of economic crisis, the oil crisis at the beginning of the 1970s, and high levels of government expenditure resulted in serious budgetary problems for the Danish government. This led in 1972 to a reduction in the number of non-profit rented dwellings being subsidized by almost 55% and a decline in the average size of new non-profit housing units from 100 sq m to 80 sq m. In order to increase the effectiveness of these measures, the government introduced a freeze on all public building in the period October 1973 to October 1974, and a system of five-year planning in housing construction was also introduced. The number of dwellings to be subsidized was fixed at 7000 per year. These measures precipitated a clear fall in the level of housing completions, from 50,000 dwellings in 1973 to around 35,000 in 1975 (see Table 6.3).

6.4.3 The period 1974-81: further policy reforms

As we have already mentioned, the government failed to achieve its objectives in its housing reforms of 1966. In 1974, therefore, under the leadership of a Social Democrat coalition, but now in consultation with six other political parties, a new compromise was reached. The objectives of these new proposals were the same as those in 1966: the reduction in the level of government subsidies and the deregulation of the housing market.

One of the most important problems was the level of indirect subsidies being made available to the owner-occupied sector through the tax system. It was reckoned that these were twice as high as the level of direct subsidies to the rented sector. In order to provide a solution to this politically sensitive problem, a committee was established to make recommendations that would lead to the reduction in these inequalities. It had proved extremely difficult in the past, however, to reduce the level of indirect subsidies. In a country where more than 50% of households are owner-occupiers, this issue presents a major political problem. To prevent the divergence between owner-occupiers and tenants from becoming even greater, the Danish government decided to reduce these differences over the course of the next decade by extending the system of rent rebates

(introduced in 1966). By the beginning of the 1980s around a quarter of tenants were benefiting from these demand subsidies; half of them were elderly. This last group moreover received an extra rent allowance. Furthermore, there is now a provision that limits (under certain conditions) the amount of rent the elderly (67+) as well as others on a social pension are required to pay to no more than 15% of their income.

The policy reforms eventually adopted included the linking of increases in subsidy levels to increases in wages and salaries, rent controls were abolished in those areas with a population of less than 20,000, rents for older properties were increased, and the opportunity to transfer tenancies from the rented sector to the owner-occupied sector (principally on a co-operative basis) increased. In order to limit the level of subsidies for new construction the annual total of non-profit housing units to be subsidized was restricted to 8000.

In addition to the influence of economic recession, two other factors were influential in determining housing policy in the 1970s. The first was an increasing concern for environmental issues in general, and for the natural environment in particular. Secondly, as in many other Western-European countries, there was growing public opposition to large-scale industrial methods of housing construction and more attention being paid to the preservation and renovation of the existing housing stock (Haywood, 1984: 189). The importance of environmental issues resulted in the setting up of the Ministry of the Environment in 1973 and of the Ministry of Energy in 1979 (see section 6.2).

One can summarize housing policy in Denmark at the beginning of the 1980s as the result of a protracted interplay between social, economic and political forces. The emphasis on self-reliance and the development of the co-operative idea has led to the government taking only a modest role in housing construction; instead it tries to influence the housing market through legislation and direct and indirect subsidies. The social role previously exercised by the government has virtually been taken over by non-profit housing associations. This has resulted in the quantity as well as the quality of the Danish housing stock significantly increasing since the Second World War. Of the seven countries covered in the present report, only the FRG and the Netherlands have experienced a greater expansion in the housing stock. Furthermore, the number of dwellings per thousand inhabitants is one of the highest in Europe, in contrast to, for example, the Netherlands, where it is the lowest (see Table 2.16).

6.4.4 The period 1982-90: reducing subsidies to owner-occupiers

In contrast to earlier decades, during the period 1982-90 Denmark was governed by a series of coalitions consisting of centrist and conservative parties and in which the Prime Minister came from the largest conservative party. Since the Second World War Denmark had been almost permanently governed by coalition governments in which the Social Democrats were members. The present Danish government is a coalition made up of the Conservative Party, the Liberal Party and the Centre Democrats (a breakaway faction of the Social Democratic

Party). The most important measures in the field of housing introduced by the post-1982 right-wing governments involved, remarkably, reducing the level of indirect subsidies to owner-occupiers.

The housing policy of this period was partly a reflection of the political background of the Minister for Housing. At the beginning of the 1980s the Minister for Housing was a member of the Centre Party, and there was considerable continuity in government housing policy. The succeeding Liberal Minister for Housing in 1986 was more concerned with ideological issues, such as the role of non-profit rented housing. Within the period 1987-90 three Ministers for Housing followed in quick succession, partly on account of a change of government, partly on account of the low political status that the Ministry of Housing has in Denmark.

The low profile the government's housing policy has had in the 1980s can be accounted for to some extent then by the lower priority given to housing. The most important decisions were made more on the recommendations of the Minister for Finance in fact than by the Ministry of Housing, though this also reflected the serious economic problems facing Denmark. The present Minister for Housing is a member of the Conservative Party. The ideological stance taken by the current government in its housing policy is evident in, among other things, its setting up of a commission whose task it is to investigate the feasibility of selling non-profit rented housing.

The economic recession of the early 1980s had major consequences for the housing market in Denmark. The number of new houses constructed fell from 34,218 in 1978 (6.6 dwellings per thousand population) to 20,768 (3.5 dwellings per thousand population) in 1982. This spectacular decline was much greater than in most other West-European countries during this period. To an important extent the fall can be accounted for by a collapse in demand among home buyers. This was partly the result of general economic recession (which led, among other things, to a decline in real incomes for many owner-occupiers), but also of worsening financial conditions in the capital market. Mortgage rates were 22% in 1982 and inflation was 15% (Ministry of Housing and Building, 1984: 6-7).

In order to cushion against this enormous fall in the level of new housing construction, a counter-cyclical subsidy policy was pursued for a number of years. After 1982 more resources were allocated to the non-profit rented housing sector, and maintenance and improvement programmes were promoted (see Table 6.1). These programmes were supported for the following two reasons. Firstly, it was considered necessary to reduce energy consumption. Many dwellings therefore had to be insulated. In addition, many dwellings were old and, as a consequence, had to be modernized. Secondly, maintenance and improvement programmes are extremely labour intensive and require only limited amounts of imported raw materials and building supplies. Given the fact that Denmark had a high rate of unemployment and had built up an enormous national debt, investing in the maintenance and improvement of dwellings also formed an important instrument of economic policy (Ministry of Housing and



Building, 1984: 7; Trollegaard, 1989: 18).

The stimulus given to the subsidized sector resulted in an expansion in the house-building programme, and 26,725 new homes were constructed in 1984 (30% more than in 1982). This increase was achieved as much by a decline in interest rates as an increase in the size of the subsidized house-building programme.

Another important stimulus for the subsidized sector was the introduction of index-linked loans. Before 1982 subsidies took the form of guaranteed loans which covered up to 23% of the costs of construction and which did not have to be repaid directly; the rest of the costs had to be financed by loans from the capital market. For these, loan guarantees were provided. The switch from fixed-interest loans to index-linked loans, on which the government paid the interest charges, reduced the average initial rent for a dwelling by around 20%. In 1982 the subsidies attached to this index-linked financing also became available for new construction projects in the co-operative sector and for urban renewal projects. New construction in the private rented sector remains, however, unsubsidized (Ministry of Housing, 1983: 7). This reflects an ideological principle of the Social Democratic Party: no profit should be made in letting accommodation.

Of the measures introduced by the government, those that have had the most effect on the housing market, and in particular on home buyers, in the last two years are undoubtedly the cuts imposed in 1986 and the tax reforms of 1987. These were proposed by a government composed of centrist and conservative parties, and supported by the Social Democratic opposition. Both measures were considered necessary to save the ailing Danish economy, and, more especially, to prevent the national debt from growing further. Denmark has the highest per capita national debt in Europe. The balance of trade first showed a deficit in 1962, and by 1989 Denmark had run up a foreign debt of at least one hundred billion guilders. Within the Conservative Party the realization grew in the 1980s that part of this deficit was a consequence of the generous way in which owner-occupation had been encouraged by indirect fiscal subsidies. The Danes had borrowed enormous amounts of money, but saved too little. This debt will have to be repaid in the near future, and by a smaller population (see Figure 2.2). At the same time, after 1992 the Danish economy will increasingly have to compete with other countries, while the ageing of the population and the decline in the labour force will also present problems rather than solutions for the economy. In order to try and solve these problems the Danish Parliament proposed the following far-reaching reforms in 1986 (Westergaard, 1989: 31):

- limiting increases in levels of income over the coming years to a rate lower than in other industrial countries; it was hoped thereby to strengthen the competitive position of the Danish economy;
- narrowing the scope of the public sector by increasing efficiency and transferring functions previously exercised by the government to the private sector;
- implementing tax cuts and reducing the activities of central government in order to pay for them;
- reducing levels of both direct and indirect subsidies (tax expenditures),

particularly in sectors closely tied to the internal market and, specifically, the construction industry;

- encouraging savings as an alternative to consumption and borrowing (including the taking out of a mortgage by owner-occupiers); one element of this policy involved the introduction of an additional tax on all consumption-oriented loans.

As part of this policy of retrenchment the system of financing home ownership was transformed in 1986 into one of mixed financing. This consisted of a loan, 60% of which took the form of an annuity loan (a loan in which the initial repayments cover principally the interest on the loan, and the later repayments an increasing proportion of the capital sum; the amount of the repayments is fixed) and the other 40% a straight repayment loan (in which repayments cover a constant proportion of the initial capital sum and the interest costs on that sum). In comparison with the original system, under which mortgages were based entirely on annuity loans, this meant a significant increase in the costs of home buying in the first few years after purchase, since a proportion of the capital borrowed had also to be repaid (Christiansen, 1990: 16).

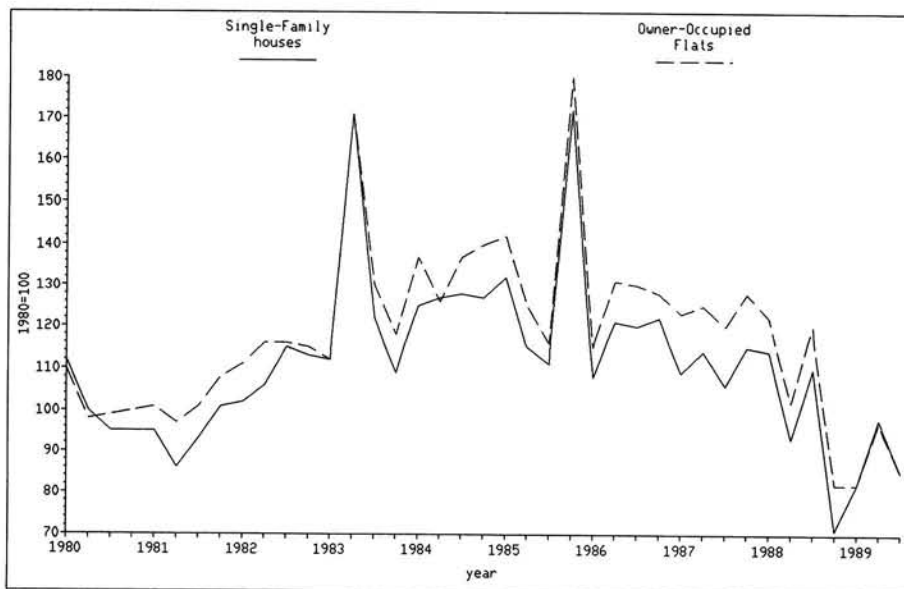
The tax reforms of 1987 had a still greater effect on home ownership. Under the new rules, tax relief on mortgage interest payments was limited to a maximum of 50% of the level of interest payments, irrespective of the income of the owner-occupier. This change represented a considerable worsening over the previous situation, when the maximum was 73% and no restrictions were put on the total level of tax relief. A transition period of three years was, however, provided for (Westergaard, 1989: 29; Trollegaard, 1989: 21; Christiansen, 1990: 16).

6.5 Housing policy in the 1990s

Despite the fact that the number of dwellings per 1000 population in Denmark is high and the quality of the housing stock has improved over the past few years, there are growing and serious structural problems in the Danish housing market for which housing policy in the 1990s will have to find solutions. A number of the most important policy issues are considered in this section.

The greatest dilemma for the Danish housing market is undoubtedly the collapse in the numbers wanting to purchase homes in 1987. This crisis did not result from a general economic decline, although incomes had at best only stabilized since 1986, or declined slightly, and unemployment had increased. This stabilization, or limited decline, is less serious than the corresponding one at the beginning of the 1980s. The two most important origins of this decline are the policy of retrenchment introduced by the government in 1986 and the tax reforms of 1987 (see section 6.4.4). First-time buyers, or those who had only recently bought their homes, were hardest hit. The reforms introduced to the system under which house purchases were financed only affected new buyers of

Figure 6.1 Number of house sales in the owner-occupied sector, 1980-90 (third quarter) (1980=100)

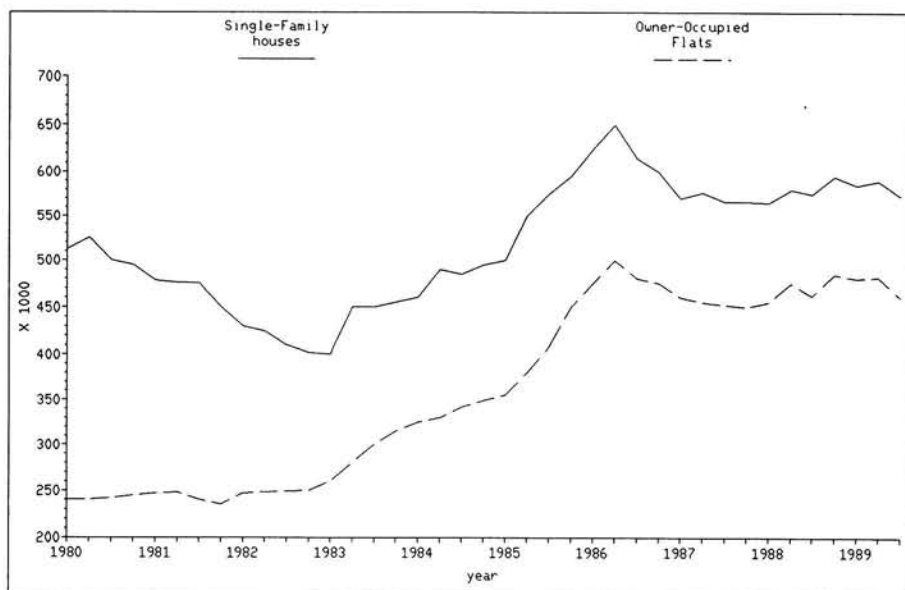


Source: Christiansen (1990: 16)

course, but tax relief had been higher in the first few years after purchase. The limits imposed on mortgage interest tax relief thus hit new home buyers most. Moreover, the reduction in the marginal rates of income tax that was regarded in part as compensating for these tax reforms was largely wiped out by increases in local authority taxes. The fact that it was significantly more difficult for young households to buy a house led to a sharp fall in the number of house sales (see Figure 6.1). Owner-occupiers wanting to buy a new house or move into rented accommodation can only sell their house if there are sufficient numbers of new purchasers. Christiansen (1990: 17) noted that because of the shortage of first-time buyers, during the last three years it has been almost impossible to sell a property. In Denmark a situation has arisen in which many elderly home owners are unable (or do not wish) to sell their homes, on account of the lack of potential buyers and the capital losses they would incur if they did sell, while many young households do not have the financial means with which buy a house. This tension in the housing market can be seen in the trend in average prices and the number of repossessions by lending institutions over the last decade (see Figures 6.2 and 6.3).

As can be seen from Figure 6.2, house prices have stabilized over the last three years. In view of the fact that inflation in Denmark has been around 5% per annum, real prices have actually declined by about 15% over the last three

Figure 6.2 Average house prices, by type, 1980-89 (third quarter) ('000 kroner)

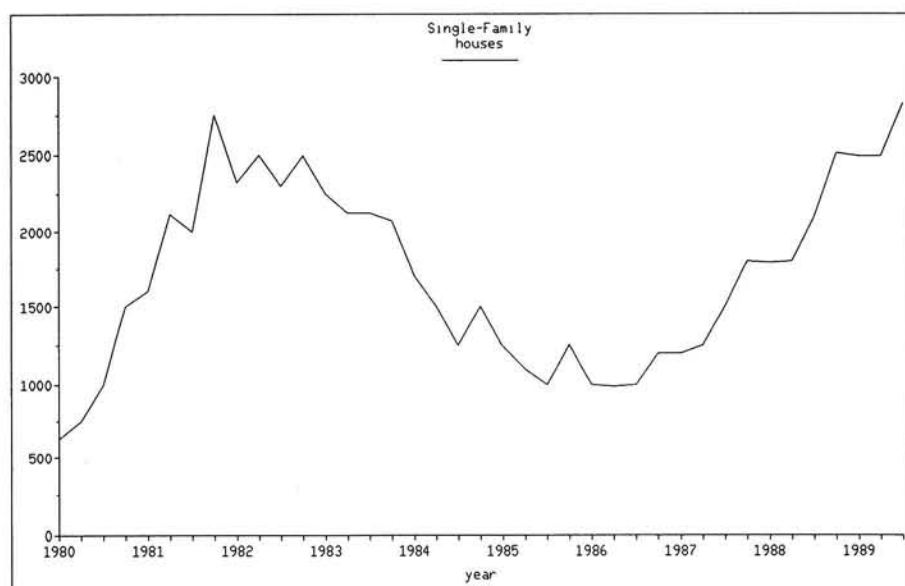


Source: Christiansen (1990: 17)

years. House prices are now at a level similar to what they were at the beginning of the 1980s. Because the number of house sales continues to be low, it is unlikely that this situation will change in the near future. In general, it is assumed that house buyers stay put out of sheer necessity, and, if they do decide to try and move, they put their property on the market for a relatively high price in the hope that eventually a buyer will turn up. Moreover, in Denmark many owner-occupiers (around two-thirds) face the problem that, apart from the house itself, they have built up almost no financial reserves, and that only a limited part of the mortgage has been repaid (since most mortgages are taken out on an annuity basis). The result of this situation has also been that the number of repossessions has again increased since 1987 (see Figure 6.3). The 3000 recorded in 1989 is more than during the economic crisis at the beginning of the 1980s. Most of them relate to recent house purchasers. The statistics of the mortgage institutions show that 75% of those owner-occupiers who were forced to part with their homes had bought them after 1986.

In addition to the debts built up by individual households, the credit institutions have also suffered a drop in membership in the past few years (and therefore also a fall in the number of shareholders). These losses are borne ultimately by the households that took out a loan with these institutions since, in addition to the costs of repaying the loan, they are required to pay an amount to cover the

Figure 6.3 Number of repossessions of single-family dwellings, 1980-89 (third quarter)



Source: Christiansen (1990: 17)

operating expenses of the institutions. If losses are high, this amount increases (for a detailed description see Papa, 1991).

In the summer of 1990 the credit institutions were rocked by a series of scandals. It appears that in the past they had issued loans without determining the real value of the property for which the loans were intended. As a result of this, situations arose in which home owners sold homes to one another (and then sold them back) and obtained much larger loans than were necessary for the purpose. Speculators were thereby in a position to extract a great deal of money from the financial system and to invest it elsewhere. These speculators set up small credit companies, and these were covered by large bona fide institutions under a guarantee system. After a time, when sufficient money had been withdrawn from the system, these small mala fide credit companies went bankrupt, after which the bona fide credit institutions were able to cover the losses. This practice was possible because only 18,000 Danish kroner was necessary to set up a credit company.

In order to prevent these practices and to reduce the competition between the various credit institutions, legislative changes have been introduced. Competition has had the effect of pushing up prices. The reforms aim to retain the advantages of the Danish system, namely that sufficient capital is available at low costs. This is in contrast to other financing systems, such as the building

savings schemes in the FRG and France, where there is often a waiting list to take out a loan on favourable conditions. The fact that in the last few decades there has been almost unrestricted borrowing in Denmark is regarded by many economists, however, as the most important origin of the current economic depression. Year after year the Danes consumed more (on credit) and borrowed more than they actually produced.

It seems as if the number of repossessions has peaked (Christiansen, 1990: 17). There is, as in England, evidence of strong regional differentiation in this however. In the outlying areas where there is little work, and on the small islands particularly, vacancy rates are higher and the fall in house prices greater. Owner-occupiers in these areas who become unemployed also become tied to their home. It is impossible for them to move to an area where employment opportunities are better because they could only sell their house at a considerable loss.

It is unlikely that the owner-occupied sector will recover in the near future, despite the fact that the economy has largely recovered to its 1986 level. A number of factors are behind this: the wariness of the prospective house buyer (because of, for example, the level of repossessions by the mortgage institutions), the government's plans to reduce further the level of tax relief, and the large number of empty properties that has resulted from the increase in the number of houses repossessed: the mortgage institutions will put these on the market again when prices increase slightly, and they thus serve as a sort of buffer. In the longer term, Denmark's population will remain fairly constant up to the year 2000 and then begin to decline. Given the large number of dwellings per 1000 population, the increase in demand is not expected to be great. It is anticipated, indeed, that there will be surpluses of smaller accommodation in larger housing complexes in the cities, while the trend towards an increase in the number of single-family dwellings seems likely to continue (Christiansen, 1990: 18). In the case of the construction industry particularly, it seems likely that a general shift from new construction to repair work and improvements is unavoidable.

In addition to the declining mobility among owner-occupiers described above, similar phenomena are evident in the non-profit rented sector. As a result, there is a division within this sector in terms of income and social status. The origins of this are economic rather than a reflection of the genuine preferences of households. In the rented sector it is the weakest groups in society, those on low incomes, the elderly, one-parent families, the retired and the long-term unemployed, that predominate. Within the rented sector there is again a degree of internal differentiation. In the private rented sector there are proportionately fewer families with children; dwellings are of a poorer quality and rents are accordingly lower. The older non-profit rented housing sector contains older households without children. Among those without pensions there is a low rate of unemployment. In the newer non-profit rented housing on the other hand there are many households with only one bread winner (such households are generally exceptional in Denmark), and many of these are one-parent families.

Around 30% to 40% of households in these housing sectors are in receipt of a state benefit or pension, and half of them are long-term unemployed (Westergard, 1989: 25).

The most significant differences are between the owner-occupied and the rented sectors. Westergard (1989: 25) has summarized the most striking of these:

- average gross incomes of owner-occupiers are twice the incomes of those in rented housing;
- the proportion of households claiming social security is twice as high in the rented sector as in the owner-occupied sector;
- in the rented sector half of the households contain only one adult, while in the owner-occupied sector 80% of households contain at least two adults;
- mobility is significantly higher among tenants (25% per year) than owner-occupiers (11%). In some parts of the newer rented housing stock (and particular problem estates) it is considerably higher (30% to 40%). On account of this high rate of mobility in the rented sector it is difficult to create stable neighbourhoods; many districts can be characterized as temporary, and those moving into them rapidly move on to other districts.

On the basis of this characterization of the housing market, Westergard suggests that Denmark demonstrates few of the characteristics typical of the Scandinavian housing market. These countries try to ensure that a varied cross-section of socio-economic groups are represented in various tenure types, and to prevent concentrations of the least well-off households in any particular form of housing. Another problem with which the Danish housing market is confronted is that not all the less expensive non-profit rented housing is rented by those on low incomes. As in the Netherlands, there has been a good deal of discussion concerning the "distortion" in the allocation of housing. The reason why this distortion exists lies in the fact that every household in Denmark can register for rented housing in the non-profit sector, and only if they are subsequently offered accommodation is an assessment made of their income and rent. The increasing segregation in the housing market, which results in a concentration of low-income households in the social sector, is one of the most debated problems in Denmark at the moment.

Given the problems of both the non-profit rented housing and the owner-occupied sectors, we may conclude that the housing market in Denmark is no longer in equilibrium. There is a surplus of large single-family dwellings in the owner-occupied sector and these dwellings are unaffordable for many households, while on the other hand there is a growing shortage of smaller and cheaper rented accommodation, which has resulted in rapidly lengthening waiting lists. In order not to further the exodus from the owner-occupied sector, the government's policy is to avoid expanding the non-profit rented sector; indeed, it is contracting its housing construction programmes.

Housing policy in the 1990s in Denmark will continue to build on the general economic policies outlined in the previous section, which are designed to bring about the restructuring of the Danish economy, and, particularly, a reduction in



the level of national debt. Both the present minority government, formed from a number of conservative parties, as well as the Social Democratic opposition have proposed the introduction of a series of fundamental changes in the Danish economy. On the issue of housing construction and the construction industry, both sets of proposals are very much in agreement. They both suggest a further reduction in levels of mortgage interest tax relief, and maximum rates of respectively 40% and 35% have been suggested. Moreover, the possibility of a further reduction in the future is not excluded. Indeed, a reduction in rates of income tax has also been proposed (Westergaard, 1989: 33).

On other issues there are differences between the government and the opposition. This resulted in the Prime Minister, Poul Schlüter, calling an early general election. His reason for doing so was the failure of his minority government to attract sufficient parliamentary support for its economic policy. There was agreement concerning the need to reduce the highest tax rates in order to bring income tax rates more in line with those in other EC countries. There remained a division, however, about the way in which the government should finance this reduction in income (whether by reducing levels of social security, or by increasing taxes on wealth or rates of company taxation). In order not to delay tax reforms further, elections were called for 12 December 1990.

The proposals advocated to reduce mortgage interest tax relief further accord with a recent policy document published by the Minister for Housing and the Minister for Finance in which it is argued that there is a sufficient supply of housing in the housing market, that there is no longer a need for new housing construction, and that what is required is a further shift from financial assistance to policies designed to encourage urban renewal and the maintenance and improvement of the existing housing stock. In this context it has been proposed that the government should stop subsidizing new construction in the non-profit and co-operative housing sectors. These proposals will effectively put an end to the expansionary house-building policy introduced in the 1980s.

In order to privatize more of the housing stock, a policy analogous to that introduced in Great Britain, studies have been made to examine the feasibility of transferring ownership of some of the housing stock of the non-profit rented sector to sitting tenants. It would be difficult to sell significant numbers of non-profit rented dwellings though. The dwellings are, after all, not owned by local authority housing departments (as they are in Great Britain) but rented out by independent non-profit organizations, managed and run by the tenants themselves (see section 6.3.3). Legally therefore the sale of houses, even to co-operatives, as is usual in Sweden (see Chapter 9), presents a problem. In practice it is only when the non-profit rented housing sector is faced with financial problems that there are opportunities for the government to enforce housing sales. Local authorities can take over possession of properties in similar situations. The financial disincentives ensure, however, that local authorities are far from eager to do this. They will be faced with having to recoup the debts incurred in taking over these properties by increasing local taxation. Another possibility involves the tenants buying the property at less than its market value.

They are currently required to repay the value of any subsidies on purchasing such a dwelling.

In addition to the sale of non-profit rented housing, the government has also proposed a reduction of 600 million kroner in the level of housing subsidies in 1991. These proposals are currently before Parliament. As in the Netherlands, an important problem here is that many government subsidies to the housing sector are the result of past obligations, and there is at best little or nothing that can be cut. There has already been retrenchment in the forthcoming housing programme. Furthermore, attempts to limit expenditure on rent rebates are awkward because of the extreme political sensitivity of such a move. This is despite the fact that there has been a substantial increase in the cost of these rebates over the course of the 1980s (see Papa, 1991). A limited way of cutting expenditure is to introduce a distinction between the level of the basic rent and the level of service charges. In Denmark rents currently include everything except heating costs. Particularly in the case of expenditure on rent rebates, this distinction can lead to savings. Clearly this does not bring about the desired level of economies, but it does demonstrate a political intention to reduce expenditure. Despite the fact that savings are being made by reducing levels of new construction, the government remains strongly committed to programmes of urban renewal. This financial involvement was already evident in 1980 with the passing of the Urban Renewal and Housing Act (see section 6.2). The government is subsidizing house improvement projects to a considerable extent. In the first year after renovation, for example, no increases in rents are passed on to tenants. It is only after the first year that rent levels are gradually adjusted to reflect the improvements made. There is, however, a good deal of criticism over the housing improvement programme; the planning phase takes too long, and too few houses are improved. Research carried out by the Danish Building Research Institute suggests that, despite considerable levels of financial support, improvements to the existing housing stock are not being made quickly enough to cope with the backlog of repairs.

To a large extent this can be explained by the subsidy system, which has failed to generate comparable private investment in the past. Indeed, quite the opposite has occurred. Private landlords often avoided carrying out necessary maintenance work to their properties because, where there was a significant backlog of repairs, or where the property was in a considerable state of disrepair, an application could be made for government improvement grants. The main reason for the deterioration and backlog of repairs in the private rented housing sector is, however, the regulation of this sector. The main problem goes back to the period of rent controls before 1976. After that, landlords had to transfer a certain proportion of rents to a maintenance account. The transfers have been too small to cover the costs of maintenance however. The quality of housing in the private sector therefore quickly deteriorated. Legislative amendments have been proposed to overcome these problems, but it remains to be seen whether Denmark will have as much success in the large-scale modernization of its old housing stock as its neighbour Sweden has had.



ENGLAND

7.1 Administrative and legal systems

England is, like Wales, Scotland and Northern Ireland, a part of the United Kingdom of Great Britain and Northern Ireland. England, Scotland and Wales constitute Great Britain. The United Kingdom is a parliamentary democracy without a written constitution. Formally power lies with central government (Mastop et al., 1990). There is no distinction between the legislature and the executive; the executive is controlled by the government, formed by the party that has a majority in the House of Commons (the Lower House); the government consists of a number of departmental ministers and is headed by a Prime Minister (Harloe, 1990). Post-war politics have been dominated by the two most important political parties: the Conservative ("Tory") Party and the socialist Labour Party. In addition there is a centre party, which since 1988 has been called the Liberal and Social Democratic Party.

There are differences between the administrative systems in England and Wales, Scotland and Northern Ireland. In general they are considered to be three distinct territories, each with its own administrative system. In 1987 these territories accounted for 88%, 9% and 3% of the total population of the United Kingdom. In addition, there are also differences between the three territories where legislation and the implementation of policy are concerned, though legislation for Scotland and Northern Ireland generally takes the same form as that for England and Wales (Harloe, 1990).

In this chapter we shall restrict ourselves as much as possible to England. Because the administrative systems in England and Wales are subject to the same legislation, the statistical data available in the published sources do not always make a distinction between the two. Furthermore, the data presented in this chapter differ from those given in Chapter 2. This is due to the fact that in Chapter 2 use was made of sources (OECD, EUROSTAT, UN) that in general only give information for the United Kingdom.

Unlike in most other countries in Western Europe there are only two administrative levels of government in England and Wales: national and local.

Power is vested formally in central government. Part of this is devolved on local and county councils. Within this framework, however, there has been some fluctuation; in the last ten years central government, certainly where housing policy is concerned, has absorbed more and more of the responsibilities previously devolved on local government. The councils are to a considerable extent financially dependent on funding from central government. In addition to funding from central government, however, local government also obtained part of its funding, until April 1990, from the rates (a local tax on property). In April 1990 the rating system was replaced by the controversial Community Charge (the so-called Poll Tax). In 1993 this will be replaced by a Council Tax (a new form of property tax).

At the local level there are two administrative bodies: the county councils and the district (or borough) councils. In rural areas there is sometimes also a third: the parish council; these have only minor responsibilities. The relationship between the county council and the district council is not hierarchical; they operate alongside each other. The councils consist of members (councillors), who are directly elected.

The legislative basis for the present system of local government was laid down in the 1972 Local Government Act. In 1980 and 1985 a number of important revisions were made to this Act. Legislation implemented in 1985 had particular consequences for the administration of metropolitan areas. It led to the abolition of the (six) metropolitan county councils and the Greater London Council. In these areas there has formally been only one level of administration, the borough council, since 1 April 1986. The district councils within each metropolitan area co-operate on an ad hoc basis. Decision-making powers that were previously exercised at the level of the metropolitan authority were transferred to regional authorities which were part of central government; as a result of this the power of central government significantly increased (Mastop et al., 1990).

Local authorities have played an important part in the construction and management of public sector housing, particularly in the period after the Second World War. We shall consider this in greater detail in sections 7.3.2 and 7.4.

7.2 Environmental factors and environmental planning

England and Wales have a total surface area of 15.1 million hectares. In 1981 around 75% of this was agricultural, 8% was wooded, and almost 12% built up. In terms of population density two parallel developments have occurred since the 1970s (DoE, 1987):

- the major urban areas (those containing 500,000 or more inhabitants) have shown declining levels of population (de-urbanization);
- there has been a shift in economic development and population from the north to the south and the south-east.

Environmental planning regulations in England and Wales are based on the 1971 Town and Country Planning Act. This Act was regularly amended in the course of the 1970s and 1980s. The 1985 Local Government Act is also of importance; it was this Act that led to changes in the administration of metropolitan counties.

The Department of the Environment (DoE) is responsible for environmental policy at the national level. As a result of, among other things, its control over local planning, the DoE has considerable influence on local environmental policy.

There is no national environmental plan; policy is articulated in a series of Green Papers, national and regional guidelines, and various regulations (Mastop et al., 1990). Thus, by means of a so-called "calling in" procedure, central government can directly intervene in local environmental decision making in order to co-ordinate national or regional and local policy and to realize large-scale projects (DoE, 1987). Within the framework set by national policy, local authorities are primarily responsible for environmental planning. As a result particularly of ecological motives, there are provisions in national legislation for measures to protect certain areas (green belt and land conservation areas). Since the 1950s green belts have been created around London and thirteen other English cities in order to:

- restrict the rapid increase in urban development;
- prevent neighbouring cities from forming a continuous area of urban development;
- protect the specific character of cities.

The fourteen existing green belts cover around 14% (1.8 million hectares) of the total area of England. In addition, 20% of the United Kingdom consists of areas that are protected either on account of their ecological value or because of the importance attached to the landscape (DoE, 1987).

Local government has a system of development planning. There are two sorts of plan: the structure plan and the local plan. The structure plan is drawn up by the county council. It lays down general guidelines for the use of the land within the county and it forms a framework within which local plans can be developed. Local plans, the drawing up of which is not mandatory, are prepared by district councils. There are three types of local plan:

- the district plan, for relatively large areas, and sometimes for the entire borough;
- the action area plan, intended for the major redevelopment of smaller areas and involving a planning horizon of at most ten years;
- the subject plan, more strictly a sector plan; for example, to determine the extent of greenland areas in a district or county.

The plans detailed in these are not legally binding. For each proposed use or (re)development of the physical environment planning permission is required. Planning permission is granted by local authorities. It is only after the granting of planning permission that laws and legal requirements become binding.

According to Mastop et al. (1990) the system of development planning, and particularly the part played by local plans, has not been entirely successful. Of the around 1000 plans submitted in 1986 only 477 were approved. Originally the local plan was intended to ensure complete coverage at a more detailed level than the structure plan. A local plan could therefore only be prepared after a structure plan had been approved by central government. The procedures followed in considering these structure plans have proved to be extremely protracted in practice. Local authorities therefore regularly make use of informal plans that have much the same function but not the same status as those drawn up under the system of development planning. In this way lengthy procedures can be avoided and policies in particular sectors (in the housing sector for example) implemented.

In 1985 the metropolitan county councils were abolished. As a result no new structure plans could be drawn up for those areas after 1985. It is intended that the structure plans be replaced over time by unitary plans drawn up by the district councils together. Until these unitary plans are drawn up and approved, however, the local councils have to carry on preparing local plans which are required to conform to structure plans that are obsolete.

Both the implementation and the effectiveness of environmental planning in England and Wales are therefore questionable. The procedures involved are time consuming and expensive, and many local authorities believe that they give central government too much control over local environmental planning. As a result of this criticism central government has recently proposed changes in the system of development planning in England and Wales (DoE, 1987; Mastop et al., 1990). They propose that:

- structure plans be abolished and replaced by county statements drawn up by the county council in which an outline of general policy is given;
- for each district there should be only one local plan, drawn up by the district council;
- the setting of regional guidelines should be restricted as much as possible; if they are necessary then they are to be drawn up by central government.

7.3 The organization of the housing market

7.3.1 Housing tenure

As in many other countries in Western Europe, three types of tenure can be distinguished within the housing market: owner-occupation, social housing, and private rented. The relationship between these different tenure groups has altered considerably over the last few decades. In 1950 53% of the total housing stock in Great Britain was privately rented, 29% owner-occupied, and 18% consisted of social housing. Since 1960 owner-occupation has been the most important form of tenure. Table 7.1 gives a breakdown of the housing stock in England by tenure for the period 1978-89.

Table 7.1 Housing stock ('000) by tenure (%), end of year figures, 1978-89

Year	Social housing sector		Owner-occupied	Private rented (and other)	Total
	Local authority	Housing associations			
1978	29.2	1.9	56.0	12.9	17 525
1979	29.0	2.1	56.6	12.3	17 695
1980	28.7	2.2	57.4	11.7	17 864
1981	28.1	2.3	58.5	11.1	18 018
1982	27.0	2.4	60.1	10.6	18 154
1983	26.1	2.4	61.4	10.1	18 318
1984	25.4	2.5	62.5	9.6	18 488
1985	24.8	2.6	63.5	9.2	18 650
1986	24.2	2.6	64.5	8.7	18 823
1987	23.4	2.7	65.6	8.3	19 002
1988	22.5	2.7	66.9	7.9	19 191
1989	21.5	2.8	68.2	7.5	19 356

Sources: DoE (1986), DoE (1990)

The owner-occupied sector in England has increased continuously since the Second World War. The Conservative government that came to power in 1951 strongly encouraged owner-occupation. This policy has remained largely unaltered under succeeding Conservative and Labour administrations. Tax relief and measures to reduce the costs of mortgages made home ownership attractive. Through building societies, non-profit-making organizations lending, in the form of a mortgage, savers' deposits to those wanting to buy their own home, sufficient capital was available to finance the expansion in home ownership (Forrest and Murie, 1984). Since 1982 banks also have lent on a large scale to finance house purchase.

Under Mrs Thatcher's premiership the Conservatives have done much, by introducing the Right to Buy for example, to sustain the growth in owner-occupation. Under the Right to Buy, council and housing association tenants have the right to buy the property they rent for a significantly lower price than its market value. In all, between April 1979 and September 1990 1.265 million public-sector dwellings were sold off under the Right to Buy scheme in England and 1.579 million in Great Britain. Section 7.4.4 considers this in more detail.

As a result of the Conservative government's policy, those households with a relatively modest income were able to buy their own home. In the last few years, however, some households have faced financial problems due to the considerable increase in the mortgage rate. In comparison with other forms of housing tenure the proportion of single-family dwellings in the owner-occupied sector is extremely high (see Table 7.2). Figures also show that around one-quarter of homes in this sector were built before 1919, and that the elderly and the young are underrepresented among owner-occupiers. According to Harloe

Table 7.2 Characteristics of the housing stock in Great Britain, by tenure, 1989 (%)

Characteristic	Owner-occupied	Public rented sector	Private rented sector	Total
Dwelling type:				
Single-family	92	59	61	80
Multi-family	8	41	35	19
Other	0	0	4	1
Amenities:				
Bath/shower	100	99	89	98
WC	100	100	91	100
Year of construction:				
Pre-1919	25	6	56	22
Post-1965	30	37	13	31
Age of household head:				
< 25	3	6	19	5
25-29	8	7	13	8
30-44	32	20	19	28
45-64	34	28	22	32
≥ 65	23	39	27	28

Source: General Household Survey

(1990) the low proportion of the elderly owning their own home is related to the fact that in the first few years after the Second World War relatively few homes built were for purchase. Very few people become owner-occupiers when they are over 40, other than those who purchased on special terms like under the Right to Buy. So the tenure characteristics of those over 65 reflect those of younger households thirty years or so ago.

The proportion of total housing stock in the private rented sector declined considerably after the Second World War. Many dwellings had either been demolished or sold to owner-occupiers. The last few decades have seen little new private rented accommodation being added to the housing stock (Forrest and Murie, 1984). In 1989 the size of the private rented sector had fallen to less than 8%.

According to Forrest and Murie (1984) the decline in investment in the private rented sector resulted from the comparatively high rates of return on invested capital that were available elsewhere. In addition, rent controls, which were in force for many years after the Second World War, and the regulations laid down by the government concerning the quality of housing have also played a role.

The Conservative government regards the private rented sector as an alternative to owner-occupation for households unable or unwilling to buy their own homes. During the 1980s therefore it tried to expand the private rented sector by a number of different means. Rent controls on virtually all new lettings in the

private rented sector were abandoned and a series of financial incentives introduced for private landlords. Until now, however, this has not led to a revival of the private rented sector, although in the major cities a limited amount of expensive (furnished) rental accommodation has been built.

The private rented sector consists to a relatively large extent of multi-family dwellings and furnished accommodation. This sector is relatively old (56% of houses were built before 1919) and, in comparison with other forms of tenure, is lacking in basic amenities (see Table 7.2). The young and (to a lesser degree) the elderly are overrepresented in the private rented sector. According to Harloe (1990) these two age groups tend to live in different types of property. The young mostly rent small furnished flats with shared amenities, whereas the elderly on the other hand live in old single-family dwellings that are larger but which, in general, have fewer amenities.

7.3.2 Social housing

In England the state is the most important source of rented accommodation. The largest proportion of this has been built and managed by local authorities. In addition there are also housing associations, private non-profit-making organizations that are increasingly active in social housing. In 1989 24.3% of the total housing stock in England was social rented accommodation; most of this (21.5%) was controlled by local authorities. Housing associations, which accounted for the rest (2.8%), therefore play a relatively small role in the housing market.

The development of the roles of local authorities and housing associations will be considered in more detail in what follows.

Local authority housing

Immediately after the Second World War local authorities were given an important role by the Labour government in alleviating the housing shortage caused by the war. They were now required to build and provide homes for the general population, not just for the less well-off. In the 1950s Conservative governments also used council housing as an effective means of increasing the housing stock.

Towards the end of the 1950s the greater part of the housing shortage had been eradicated and the emphasis of government policy switched from local authority housing to owner-occupation. The proportion of the housing stock controlled by local authorities continued to increase until the end of the 1970s though. In the last decade, however, the importance of local authorities in the public rented sector has significantly declined. In addition, local authority new construction has fallen significantly. In 1978 29.2% of the housing stock in England was controlled by local authorities. As a result of the tenants' Right to Buy, introduced in 1980, this figure had declined to 21.5% by 1989. The number of new homes built by local authorities, which had reached a high point in 1967 when 204,000 homes were constructed, had fallen to less than 14,000 by 1989.

Local authorities are now primarily involved in maintaining and improving the existing housing stock.

The strong emphasis on the construction of local authority housing after 1945 is apparent from Table 7.2. Only 6% of local authority housing dates from before 1919. A relatively high proportion of local authority housing was built as multi-family dwellings (41%) and the elderly are heavily overrepresented among those in local authority housing.

The significant contraction in the role of local authorities in public housing during the course of the 1980s was a direct result of the Conservative government's policy of privatization. The government believed that too much public expenditure was being devoted to public sector housing. The cuts in public expenditure proposed by the government particularly affected local authority housing and were justified by the belief that the state, through its subsidizing of local authority housing activities, was in fact assisting those local authority tenants best placed to help themselves (Short, 1982).

The freedom of local authorities to borrow for new construction and to pursue their own rent policy has been significantly limited. Moreover, the level of grants from central government has fallen considerably, with the result that rents have increased. For those tenants on low incomes this increase is compensated for by higher levels of Housing Benefit. The task of local authorities is now restricted to the provision of accommodation for special groups - the elderly and the handicapped.

The system of financing local authority housing activity has been altered considerably as a result of this policy change. In 1977/78 around 40% of local authority expenditure was financed from rents, and a similar proportion was financed from central government grants. A further 10% came from local taxes, and the rest from other sources of income. In 1983/84 income from rents financed 55% and central government grants 16% of local authority expenditure.

The rest came largely from local taxes (around 10%) and from council house sales to sitting tenants (Harloe, 1990). The most up-to-date figures for sources of finance for local authority housing are for 1988/89 (see Table 7.3).

The result of the Conservative government's policy has firstly been a decline in the stock of public rented accommodation. Moreover, the average quality of housing in this sector has also declined since it has been the better houses that

Table 7.3 Sources of finance for local authority housing (1988/89) (%)

Rent paid by tenants from own funds	31.8
Rent paid on behalf of tenants by housing benefit	32.9
Central government grants	8.5
Local taxation	8.3
Interest from sales	11.3
Other income	7.2

Source: Department of the Environment

have been sold to tenants. Finally, the sale of council houses and the decline in the private rented sector has led to an increasing social and economic polarization of the owner-occupied and the public rented sectors (Harloe, 1990). An increasing proportion of local authority tenants is made up of the unskilled, unemployed, old, and those dependent to a large extent on social security. Harloe (1990) has referred to this as the marginalization of the public rented sector.

Twice a year representatives of central government and local authorities hold a joint Housing Consultative Meeting, sometimes called the Housing Consultative Council. During these meetings local and central government politicians are able to speak to each other directly. The agenda is drawn up beforehand by civil servants from the DoE and officials from the various organizations of local authorities. These organizations are dominated by the politicians. The officials and civil servants have no right to address these meetings (Laar, 1990).

Housing associations

Housing associations are private non-profit-making organizations. It is only the largest of them that have the means to construct homes themselves. In 1984 there were 4400 housing associations in Great Britain. More than 80% of them owned fewer than 250 homes, and only 5% had more than 100. Around two-thirds of total housing association housing is controlled by fewer than 100 associations. In 1985-86 only 550 housing associations were involved in new developments of any significance (Harloe, 1990).

The first housing associations were set up by rich individuals in the second half of the nineteenth century to provide the poor with adequate housing. These private charitable institutions developed further during the first half of the twentieth century, along with a small number of other associations established by industrialists to provide housing for their employees (Forrest and Murie, 1984).

After the Second World War the number of housing associations rapidly increased as a result of the acute housing shortage and the inadequate conditions in which private sector tenants lived. In 1964 the Housing Corporation was set up to promote and co-ordinate the activities of the housing associations, most of which were still small. The Housing Act of 1974 assigned a more important role to housing associations. From then on capital and development grants were awarded to the associations by the government. In addition, the responsibilities of the Housing Corporation were increased. Since 1974 the Housing Corporation has kept a register of housing associations, monitored the associations on behalf of the government and contributed to the financing of housing association building programmes through its administration of government subsidies. New housing association development increased in the second half of the 1970s as a consequence of this legislation (see Table 7.4).

The financial system under which housing associations operated after 1974 was radically altered in 1988. The existing system, which was based on a concept

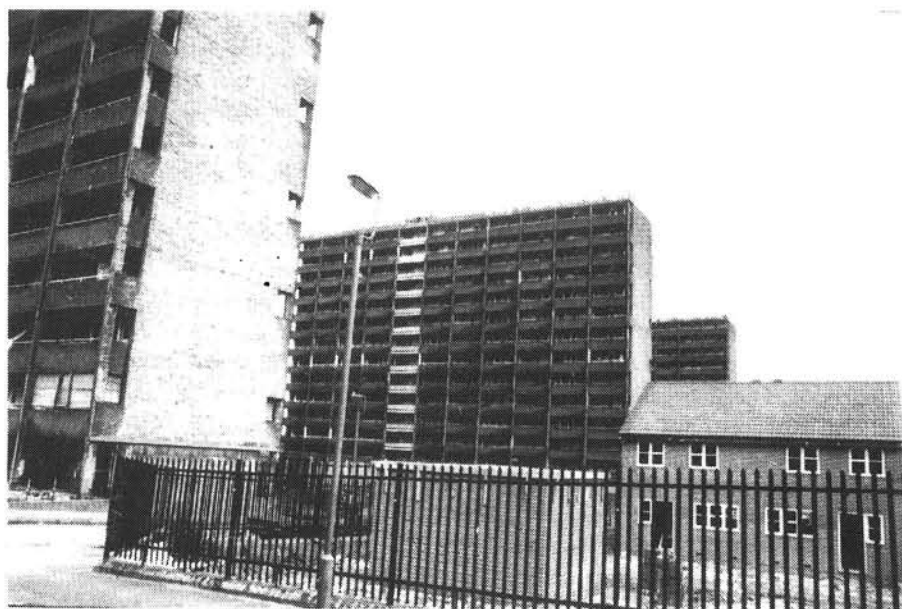


Table 7.4 New Dwellings completed for Housing Associations in England, 1970-89

Year		Year	
1970	8 176	1980	19 299
1971	10 168	1981	16 838
1972	6 904	1982	11 157
1973	8 340	1983	14 292
1974	9 264	1984	13 973
1975	13 652	1985	11 318
1976	14 436	1986	10 464
1977	24 193	1987	10 411
1978	20 572	1988	9 958
1979	16 275	1989	9 187

Sources: DoE (1986), DoE (1990)

of "fair" rents (see section 7.4), was abandoned; housing associations were required gradually to move to a system of market rents. In addition, housing associations were required to draw on the capital market for part of their financing. Where operating losses were incurred, in future these had to be covered by the associations themselves.

Despite these changes, the Conservative government expects housing associations to play a significant role in the coming years. It is expected that as a result of attracting private investment the housing associations' total level of investment will double. It is possible that some housing associations will regard the risks as too high, where, for instance, they are dependent on private finance in a situation in which they themselves have to face the financial risks of operating losses. Furthermore, it is unclear whether under the new system homes can be offered at affordable rents (Bol  at, 1989).

7.3.3 The construction industry

As in other countries in Western Europe, the output of the construction industry is also dependent on economic development in general. This is clear from Table 7.5, which gives levels for the construction industry's output of housing work in Great Britain for the period 1980-89 (in 1985 prices). Output levels fell in all of the various sectors in the beginning of the 1980s as a result of the economic recession.

After 1982 there is some evidence of an increase, although, after a short recovery, output in the public sector declined further as a result of the Conservative government's policies. By 1985 the construction industry's total output of housing work was just below its 1980 level. Since 1986 there has been an increase in the construction industry's output of housing work, as a result of the growth in investment in the private sector and in repair and maintenance.

In Table 7.6 construction industry activity for the years 1985 and 1989 is broken down by type of activity. New housing construction accounted for 17.1%

Table 7.5 Construction Industry Output of Housing Work (£ million, in 1985 prices), Great Britain, 1980-89

Year	Public sector	New housing Private sector	Repair and maintenance (both sectors)	Total
1980	2 077	3 332	6 478	11 867
1981	1 366	3 029	5 892	10 287
1982	1 140	3 482	5 858	10 480
1983	1 201	4 174	6 247	11 631
1984	1 107	4 036	6 577	11 720
1985	918	3 848	6 809	11 575
1986	815	4 294	7 113	12 222
1987	868	4 771	7 572	13 211
1988	789	5 312	7 689	14 090
1989	754	4 319	8 191	13 264

Source: DoE (1990)

of total output in 1985 and for 14.7% of total output in 1989. In comparison with the period 1955-79, in which new housing construction represented between 20 and 30% of total output, its importance declined during the 1980s.

Table 7.7 gives a breakdown of new housing by sector for the period 1975-89. It is apparent that during this period there was a clear shift from social housing to the private sector. This was partly a result of the policy of successive Conservative administrations, under which the promotion of the private sector and the forcing back of the role of the state in public housing figured, and figures, centrally.

The fluctuations in construction activity have led to a number of problems according to Short (1982). In times of falling demand, unskilled labourers leave the construction industry and firms go bankrupt. As a result, in times of rising demand the construction industry is faced with a shortage of labour and raw

Table 7.6 Construction Industry Output by Type of Activity, 1985 and 1989, Great Britain (%)

Type of activity	1985	1989
New housing, public	3.3	2.2
New housing, private	13.8	12.5
Other new work, public	13.6	11.0
Other new work, private	22.9	30.7
Repair and maintenance, housing	24.4	23.6
Other repair and maintenance	22.0	20.0
Total	100	100

Source: DoE (1990)

Table 7.7 New dwellings completed in England, by sector, 1975-89 ('000)

Year	Social housing ¹	Private sector	Total
1975	130.1	131.4	265.5
1976	132.5	130.9	263.4
1977	140.0	121.6	261.6
1978	113.9	127.5	241.4
1979	91.1	118.4	209.5
1980	101.1	110.3	204.4
1981	71.7	98.8	170.5
1982	42.8	108.8	151.6
1983	44.2	129.2	173.4
1984	43.1	138.7	181.8
1985	34.6	135.4	170.0
1986	30.1	147.9	178.0
1987	27.0	157.6	184.6
1988	26.0	169.8	195.8
1989	22.8	148.1	170.9

¹ including housing associations

Sources: DoE (1986), DoE (1990)

materials. The rapid fluctuations in levels of demand in the post-war period have led firms to be extremely cautious in their investment policies, and this has resulted in a slow rate of technological advance and frequent use of subcontractors. At the end of the 1970s around 93% of the 91,520 firms active in the construction industry employed fewer than 25 workers. These small firms play an important role in small-scale new construction projects in the private sector and in the repair and maintenance of existing buildings. The larger firms account for a considerable share of the larger new construction projects and they are also responsible for the construction of most new public housing.

In addition to the private sector, in the construction industry there is also (and has been since 1892) a local authority building sector. These Direct Labour Organizations (DLOs) were established because of a dissatisfaction with the quality of the work done by the private sector and because of the poor working conditions that prevailed at the end of the last century.

Increasing numbers of local authorities established their own DLOs after the Second World War because the private sector was unable to meet the continually rising demand for new housing. In 1979 more than 96% of local authorities in England and Wales had their own DLO (Short, 1982). These DLOs employed a workforce of 134,862 operatives, compared with 674,000 in the private sector. The value of DLO output was some £346 million, that of the private sector £3500 million.

Table 7.8 gives a breakdown of DLO activity for 1979 and 1989. It appears from this that most of their work consists of repair and maintenance. Since the

Table 7.8 Output of Direct Labour Organizations in England and Wales in 1979 and 1989, by type of activity (%)

Type of activity	Percentage of total output 1979	Percentage of total output 1989
New work	13.5	9.6
housing	6.8	0.6
other	6.7	9.0
Repair and maintenance	86.5	90.4
housing	39.8	39.0
other	46.7	51.4
Total	100.0 (£346 million)	100.0 (£3507 million ¹)

¹ in outturn (net 1985) prices
Source: DoE (1990)

Conservatives came into office in 1979, there has been considerable pressure put on local authorities to reduce the size of their DLOs. This has had little effect so far. In 1985 the DLOs in Great Britain employed a workforce of 253,000 (figures for England and Wales only are not available), compared with the 1,238,000 employed by the private sector (DoE, 1987). The proportion of the total labour force in the construction industry employed by DLOs during the period 1979-85 has therefore remained fairly stable at around 20%.

7.4 The development of housing policy in the period 1970-89

7.4.1 Background

As was the case in many other European countries, England was faced with a housing crisis after the Second World War. During the war few or no homes were built and it is estimated that around half a million homes were either destroyed or made completely uninhabitable. Moreover, another three and a quarter million homes had been damaged to a greater or lesser extent (Short, 1982: 42).

While the size of the housing stock had been reduced, the demand for housing had increased. The population of England increased by more than a million between 1939 and 1945, and the number of households significantly increased as a result of declining household size.

The Labour Party was returned to power in the general election of 1945 and initially introduced a number of short-term measures to deal with the housing crisis. A large-scale repair programme was begun, and between 1945-48 almost 125,000 (temporary) prefab homes were built. In the longer term the Labour government's policy involved a much greater emphasis than there had been before the war on the role of the state in housing.

The government's housing policy was outlined in the 1946 Housing Act. On account of the scarcity of raw materials, the system of building permits, which had been introduced during the war, was continued and employed to control private sector housing construction. Existing subsidies for the construction of public rented housing by local authorities were increased (from £8.25 per house per year for a period of forty years to £22 per house per year for a period of sixty years) and local authorities were allowed to borrow at relatively low rates of interest from the Public Works Loan Board (PWLb). This was a quasi-autonomous government body set up in 1917 to provide cheap loans to local authorities. The Labour government's 1949 Housing Act extended the role of local authorities to include the provision of housing for the population as a whole and not just for the working class (Short, 1982: 45; Smith, 1984: 82).

A total of 902,000 homes were built in England and Wales during the period of Labour administration 1945-51; of these, 78% were provided by local authorities (Smith, 1984: 82).

As a result of balance of payments difficulties after 1947, not all the Labour government's policies could be realized. Loans from the United States were conditional on a greater part of government expenditure being devoted to industrial development. As a result, expenditure on the health sector, housing and education declined after 1948.

The level of housing construction was one of the most important and controversial issues in the general election of 1951. The Conservatives were returned to office that year on a promise of increasing the level of housing construction to 300,000 per year. Attaining this target was a central aim of the government during the first few years of its administration. Local authorities were also given a role in ensuring this target was met. They were encouraged to build and, in the 1952 Housing Act, the level of annual subsidy per house was increased to £35.60 (mandatory local authority contribution and central government subsidy). There was a rapid increase in the number of new housing completions and the target of 300,000 new homes per year was reached in 1953 and exceeded in 1954. This increase in quantity was, however, at the expense of quality; the usable living space in new housing declined, and the amenities provided limited.

As soon as they had fulfilled their promise to the electorate, the Conservative government began to put a greater emphasis in its housing policy on the role of the private sector. Local authorities gradually reverted to their traditional role as provider of housing for those who could not afford their own home. In 1953 the government published a White Paper in which it outlined five areas of policy (Short, 1982: 49):

- The encouragement of private enterprise. The planning restrictions imposed by the Labour government to regulate the private sector were abolished in 1954.
- The promotion of owner-occupation. Local authorities were encouraged to sell council housing, and mortgage and tax incentives were introduced for owner-occupiers.

- The restoration of the private rented sector. After 1954 rent increases in the private sector were permitted in cases where repairs had been made. In practice the implementation of this regulation proved to be too complicated. The 1957 Rent Act provided for the deregulation of private sector rents above a certain level. This similarly had little effect. Those homes whose rents were above this level were mostly sold for owner-occupation rather than re-letting.
- Limiting the responsibilities of local authorities. In 1956 the functions of local authorities were restricted to clearing slums and constructing new replacement housing, mostly in the form of high-rise flats. In 1961 local authorities were given more wide-ranging responsibilities, but the level of subsidies forced (rural) local authorities to set rents at a relatively high level. After 1955 local authorities were unable to borrow money through the PWLB. This meant that the costs of financing new construction and, as a consequence, the level of rents increased, while the quality of new housing declined. New housing completions in the public sector in England and Wales declined from 150,000 in 1957 to around 100,000 in 1959. Investment in public rented sector housing was increased somewhat in 1963 and 1964, with the result that 150,000 homes were built by local authorities in each of the years 1965 and 1966.
- Greater emphasis on repairs and improvements to the housing stock. In order to improve the quality of the housing stock the Conservative government had a twofold solution. The poorest quality housing was to be demolished (by local authorities) and a number of measures were taken to encourage home improvements within the private sector. The 1954 Housing Repairs and Rent Act had not had the desired effect. The 1959 House Purchase and Housing Act on the other hand led to an enormous increase in the number of requests for grants, particularly to improve bathroom and toilet amenities. It was mostly owner-occupiers who benefited from this measure.

The Conservative government had a number of successes during the period 1951-64: the number of housing completions in the private sector rose from 25,000 in 1951 to more than 150,000 in 1964; more than 60,000 slum dwellings per year were demolished and the number of improvements carried out per year rose from 5000 in 1950 to 125,000 in 1963. As a result of the decline in the number of new housing completions in the public rented sector and the continued decline in the importance of the private rented sector, low-income groups in the major cities continued, however, to be faced with a serious housing shortage.

The Conservatives lost the general election of 1964 and there followed a period of Labour government. Short (1982: 54) has argued that the housing policy of this government was characterized by a lack of coherence and vision: "What it had was short-term commitments and longer-term hopes".

Under the 1965 Rent Act the measures taken in 1961 to deregulate rents in the private sector were reversed and replaced by a system of rent controls based on the concept of a fair rent. The level of a fair rent was supposed to be equivalent to what the market rent would be assuming no scarcity (Short, 1982: 55). In practice, fair rents were set to the prevailing level of rents in the immediate locality (Smith, 1984: 91). Fair rents were determined by local rent officers or a rent tribunal. On account of the level of new construction, a housing programme was drawn up in 1965 in which it was assumed the level of new housing completions would be increased to 500,000 by 1970. In contrast to previous Labour administrations, the construction of public housing was regarded as a short-term expedient. Owner-occupation was regarded as the normal form of tenure in the longer term (Short, 1982: 55).

In order to stimulate construction during a period of economic stagnation, the regulations concerning subsidies for new local authority housing were revised so that interest rate fluctuations were absorbed by the state. In 1967 the option mortgage and guarantee scheme was introduced to enable low-income groups to buy their own homes. Under this scheme house buyers who were ineligible for mortgage interest tax relief were able to get a mortgage at a lower rate of interest. The level of new housing completions did not reach the hoped for 500,000 per year, however the figure of 372,000 for England and Wales in 1968 represented a record, and one that owed most to the private sector.

By the end of the 1960s the Labour government had had to change its policy. The large-scale slum clearance programmes carried out by local authorities became, partly as a result of rising interest rates, too expensive and moreover were considered socially unacceptable. The 1969 Housing Act marked a switch from a policy of slum clearance and replacement new housing to one of housing improvements. As part of this new policy, General Improvement Areas (GIAs) were introduced. These were small areas covering some 200-300 old dwellings (mostly owner-occupied). Through a combination of special grants to owner-occupiers and a programme of environmental improvements to be carried out by local authorities, the government tried to improve housing and living conditions in these areas.

7.4.2 The period 1970-74; greater emphasis on the private sector

The 1970s began with a period of Conservative administration. Its housing policy was similar to that of the previous Conservative period of government (1951-64) and emphasized support for the private sector and a reduction in the role of local authorities in housing. In 1973 a subsidy was provided by the government to building societies, the most important source of mortgages for owner-occupiers, in order to keep the mortgage rate down to 9.5%.

The shift in emphasis from slum clearance to improvement that occurred under the previous Labour government continued. The grants available to local authorities for environmental improvements were increased in 1971, and plans were drawn up to create Housing Action Areas (HAAs). It was intended that these HAAs be characterized by a high concentration of private rented housing

that could be improved and that was in a poorer condition than housing in a General Improvement Area. The grants available for housing in HAAs were higher than those available in GIAs, but government subsidies for environmental improvements were lower. The introduction of HAAs was delayed by the electoral defeat of the Conservatives in 1974. Their plans were adopted and implemented, however, by the new Labour government in its 1974 Housing Act (see section 7.4.3).

The Conservative government implemented a number of measures to stimulate owner-occupation, including extending the option mortgage and guarantee scheme and encouraging local authorities to sell housing. In general however, the government believed that too great a proportion of national expenditure was being devoted to housing, and particularly to public housing by local authorities. Two measures were implemented to restrict the role of local authorities. Firstly, the 1972 Housing Act intended to reduce the level of government grants to local authorities and to induce better-off tenants to become owner-occupiers. The system of fair rents introduced in 1965 in the private rented sector was also extended to include public rented sector housing. Rents were to be increased annually by a fixed amount until they reached the level of fair rents. This had two important consequences. Firstly, it marked the end of local authority autonomy in setting rent levels. Secondly, it involved a drastic change in the existing grant system. The basic annual subsidy for each dwelling was abolished. The difference between (rising) local authority expenditure and income from rents was compensated for by a grant from central government; the level of this grant declined the more rents approached the level of fair rents. Those tenants on very low incomes were to be eligible for rent rebates. Eventually, it was expected that most local authorities would be able to manage their housing stock without the need for subsidies from central government. Any surpluses that resulted could be used by the government to assist less prosperous authorities.

Secondly, new housing construction by housing associations was encouraged. Although the Conservatives had once again deregulated rents in the private rented sector in 1972, expectations of a growth in the private rented sector had been too optimistic. It was hoped that giving a more significant role to housing associations would prevent the function of the private rented sector from being further subsumed by local authorities.

7.4.3 The period 1974-79: socialist government in a time of economic crisis

In 1974, against the background of a worsening economic climate, with rising inflation, increasing interest rates, and balance of payments difficulties, a Labour government came to power; it was to remain in office until 1979. Short (1982: 61-64) has identified three important elements in its housing policy during this period.

Firstly, there was the legacy of the previous Conservative administration. The 1974 Housing Act contained much that had been suggested by the Conservatives. The emphasis on improving homes remained; a number of different

improvement grants were introduced and the measures worked out by the Conservatives relating to the introduction of Housing Action Areas were implemented. To increase the chances of this policy working, the government made it easier for local authorities, along with housing associations, to buy and improve homes. Between 1974 and 1978 272 HAAs were drawn up, though towards the end of the 1970s the improvement programme was faced with a sharp decline in the level of grants from central government.

Secondly, the Labour government had its own policy proposals too: the 1972 Housing Finance Act was repealed, rent controls were extended to include furnished accommodation, the role of local authorities in housing was reinforced, and a wide-ranging review of housing policy was started. Under the 1975 Housing Rent and Subsidies Act local authority rents, which the Conservative government had included in the fair rent system in 1972, were taken out of the system and were once again to be the responsibility of local authorities. Low-income groups continued to be eligible for rent rebates. Moreover, new grant regulations were introduced to keep rents low and to protect public housing against continued rapidly rising costs. As a result of these measures, the number of new housing completions by local authorities rose between 1973-77 from less than 100,000 to more than 150,000 per year.

The review of housing policy was rounded off and published in 1977 in a Green Paper entitled *Housing Policy* (DoE, 1977). Short (1982: 62) suggests that the results of this ambitious study were disappointing. It reiterated established themes in post-war housing policy:

- owner-occupation should be increased. In *Housing Policy* it was suggested that "owning one's own home is a basic and natural desire". In 1974 and 1975 the Labour government had already passed a number of measures to encourage owner-occupation; the building societies received a loan from the government in order to be able to meet the high demand for mortgages. In *Housing Policy* it was suggested that government expenditure on the owner-occupied sector (in the form of tax relief on mortgage interest payments), which in 1975 and 1976 had stood at £1100 million per year (in 1977 prices), should be continued. In comparison, expenditure on the public rented sector (in the form of grants) amounted to £1353 million per year. The government adopted the suggestion that mortgage interest tax relief should continue unchanged.
- Public housing was to remain in the hands of local authorities. Furthermore, a system of Housing Investment Programmes and Strategies (HIPs) was introduced. This implied the decentralization of housing policy. It was intended that local authorities would formulate policy within the framework established by central government, taking into account local considerations. On the one hand this made it necessary for a degree of co-ordination with other levels of regional administration (transport, employment, health, etc.), and on the other that local policy ensured the activities of the different housing sectors were consistent with one another (Smith, 1984: 102).

The purpose of the HIPs was to guarantee local authorities a uniform and continued level of investment. They are a sort of housing plan, which the local authorities have to publish each year. In this the local authority is required to outline how much it proposes to spend on the different housing sectors. This HIP has then to be submitted to central government, which considers whether it is consistent with national policy guidelines. As a result of this consideration the expenditure estimates are approved or otherwise (Hollander and Schuiling, 1989: 8).

Electoral defeat in 1979 prevented the Labour government from implementing the new subsidy schemes, and many other proposals for the public sector could not be realized.

The third and final element identified by Short in the Labour government's housing policy is the economic crisis of the mid-1970s. The crisis led to significant cuts in public expenditure. Expenditure on public housing fell by £150 million, and the brunt of this was felt by the local authority housing sector. Local authority housing investment declined as a result, from £2580 million in 1975/76 to £1934 million in 1977/78. Home improvement grants were no longer to rise in line with inflation. The financial resources available to GIAs and HAAs fell, and so the number of applications declined rapidly.

New house building in the local authority sector declined, mortgages became more difficult to obtain, and it became more difficult for those seeking housing to find suitable accommodation.

The total level of new housing constructed fluctuated between 270,000 and 315,000 over the period 1974-78; in 1979 it fell to 245,000.

7.4.4 The period 1979-89: retrenchment and the privatization of housing

The Conservative government that came to power in 1979 differed in a number of respects from previous Conservative administrations. The importance of the right wing within the Conservative Party had become more important during the 1970s, and after the electoral defeat of Edward Heath in 1974 the belief that a consensus could be reached with the Labour Party over the scope and limits of the welfare state began to fade. The Conservatives laid greater emphasis than before on the importance of a free-market economy in which competition and individual responsibility would bring about economic improvement. Bringing inflation down through tighter control of public expenditure was considered to be one of the most important tasks facing the government.

Within this school of thought, existing Conservative ideas concerning the importance of encouraging owner-occupation and the need to reduce the influence of local authorities on housing found a new voice. The mechanism of the free market could provide the solution to problems in the housing market. The 1980 Housing Act formalized Tory thinking on housing:

- Central government increased its control over local authority housing activities. Grants for local authority housing were much more stringently regulated, and deficits had to be met by an increase in income from rents or by an

increase in contributions from local authorities themselves. These more stringent regulations resulted in a fall in the level of grants to local authorities from £1423 million in 1980/81 to £290 million in the period 1983/84 (Kroes, 1985: 67). During the same period, rents increased significantly and, as a result, the level of Housing Benefit also. Total government expenditure on direct subsidies and on housing benefits and rebates for low-income groups did not change appreciably; what occurred was rather a transfer from general supply subsidies to demand subsidies (Hills et al., 1990: 152).

- Local authority tenants (and those renting from non-charitable housing associations) were given the right to buy their homes at a discount varying from 33% to 50% of the market value (dependent on the length of time they had lived there). Local authorities were also obliged to provide a mortgage to those wanting to buy their own council house. If the house was subsequently sold within five years, then part of the discount had to be paid back to the council.

Part of the receipts from the sale of council houses could be used by local authorities to construct new housing. The proportion of proceeds from sales not spent on housing investment could be carried forward to the next year - and then a given percentage of the sum of the receipts carried forward could be spent on housing investment. This became known as the Cascade Effect; it was ended by the Local Government and Housing Act 1989.

- The preference for improving homes over slum clearance programmes and new construction remained. Improvement grants were no longer restricted to the GIAs and HAAs established by local authorities. Further, the procedures whereby individual owner-occupiers or tenants could apply for grants were made easier.
- The position of local authority tenants was strengthened by giving them greater security of tenure and allowing them some freedoms, such as the right to sublet part of their home, keep pets, etc.
- The private rented sector was encouraged by allowing higher rents, reducing the time period between which fair rents were to be registered (from three years to two, thereby allowing for more frequent increases), and limiting security of tenure (Short, 1982: 66). Two sorts of tenancy were distinguished: one for a fixed period (between one and five years), which fell under the fair rent system, and permanent security of tenure, where the landlord could charge a market rent. These assured tenancies could only be offered by approved landlords, and only in cases of new or substantially-renovated dwellings.

Government expenditure on housing was cut considerably under the Conservatives. In June 1979 the first cuts in housing expenditure were announced: the housing budget was reduced by 6% from its level of £5000 million. In April 1980 the Government announced further cuts; public expenditure on housing was to be reduced from £5372 million in 1979/80 to £2790 million in 1983/84 (in 1979 prices). This meant a reduction of 48% in the housing budget in real terms.



The Conservative government regarded owner-occupation as the "normal" form of tenure. For those households who were unable or unwilling to be owner-occupiers, there was the private rented sector. The public sector ought only to be concerned with the provision of housing for special groups, such as the elderly and the disabled.

It was not clear how housing associations fitted into this framework. After all, they were private organizations that, after 1974, had been brought under a system of control similar to that exercised over the public sector. Housing associations thereby became semi-public organizations, and in the 1982 Housing and Building Control Bill the housing stock of these associations was included in the public rented sector, as a result of which housing association tenants were also given the right to buy. The House of Lords, however, rejected the government's attempt to treat housing associations and local authorities similarly. The following year the government tried once again to extend the right to buy to housing association tenants, and once again the House of Lords thwarted their plans. Eventually a measure was approved that provided a grant to housing association tenants who wished to exercise their right to buy so that they could buy an alternative house (Back and Hamnett, 1985: 405-407).

Housing associations continue to be classed by the government as part of the private sector, though its housing stock is regarded as social housing.

As a result of increasingly pressure on local authorities to stop housing construction and the increasing difficulty in borrowing for housing construction, new construction in the social rented sector (housing associations and local authorities) fell rapidly in England during the period 1980-89. From a high of around 140,000 in 1977 under the last Labour administration, the number of new homes completed fell to 91,100 in 1979 and 22,800 in 1989 (see Table 7.9). In the rented sector it has primarily been the role of local authorities in providing new homes that has declined. After a hesitant start the sale of council houses was successful, and it proved to be an extremely effective method of limiting local authority influence on the housing market. Table 7.10 shows how many homes were sold during the period 1975-89. Between 1980-82 the number increased sharply from 84,000 to 208,000. After 1982 sales declined and in 1984

Table 7.9 New social housing completions (including housing associations), England, 1979-89

Year	Dwellings ('000)	Year	Dwellings ('000)
1979	91.1	1985	34.6
1980	101.1	1986	30.1
1981	71.7	1987	27.0
1982	42.8	1988	26.0
1983	44.2	1989	22.8
1984	43.1		

Sources: DoE (1986), DoE (1990)

Table 7.10 Sales of Public Sector Dwellings, England, 1975-89 ('000)

Year	No. of dwellings sold	Year	No. of dwellings sold
1975	3	1982	208
1976	6	1983	150
1977	13	1984	113
1978	30	1985	98
1979	41	1986	92
1980	84	1987	103
1981	105	1988	150
		1989	156

Sources: DoE (1986), DoE (1990)

the rules were relaxed; the maximum discount on the market value of a property was increased to 60% and the minimum period one had to have been a tenant to be eligible for a discount was reduced to two years. Sales continued to decline and in the 1986 Housing and Planning Act the rules were once more revised. Tenants in high-rise flats were offered a discount of between 40% and 70% and the length of time during which a part of the discount had to be repaid if the house was sold was reduced to two years. The higher discounts for those renting flats were a consequence of the fact that they had constituted only 4% of council house sales.

For those households unable to afford to buy their own home, a "shared ownership" scheme was introduced in 1980. The most important characteristic of shared ownership is that the local authority offers the future owner of the property the opportunity to buy a share of the property in return for a payment equal to 25%, 50% or 75% of its market value and a monthly payment equal to 75%, 50% or 25% of the rented value of the house. The remaining share can be bought at a later date (DGVH, 1985: 10; DoE, 1987: 38). Under the 1986 Housing and Planning Act local authorities were also permitted to sell entire housing estates to the private sector. Hollander and Schuiling (1989: 9) suggest that this has met with little success. The most successful examples, they argue, involve the sale of high-rise blocks of flats that have then been converted and sold off as expensive luxury apartments. The result of the sale of public sector dwellings has been a sharp increase in the proportion of owner-occupiers from 56.6% in 1979 to 68.2% in 1988. The proportion of the housing stock in the hands of local authorities, which had peaked in 1978 at 29.2%, had fallen back to 21.5% by 1989. Since 1981 the number of council house sales has increasingly exceeded the level of new council house building.

Kleinman and Whitehead (1988) have argued that housing in England during the period 1979-87 can be characterized:

- Compared with the 1970s the level of new housing construction declined. Furthermore, there was a shift in new construction from the public to the private sector.
- The number of households continued to grow and the importance of the traditional family declined. In trying to meet the demand for housing, local authorities were faced with having to deal with a much larger number of household types.
- In general, houses were much more expensive in the 1980s. In the owner-occupied sector house prices rose in real terms, mortgage rates also rose, and the level of tax relief declined (relatively). Rents increased, particularly in the early 1980s.
- The owner-occupied sector continued to grow at the expense of the public and private rented sectors. As a result of the further decline in the importance of the private rented sector and the growth in owner-occupation, even among households with modest incomes, the role of the public sector became increasingly limited to the provision of accommodation for those on the lowest incomes.
- A consequence of the decline in the housing stock in the public sector, the weakening of the private rented sector, and of the economic depression is that the ease with which low-income groups could find accommodation became increasingly restricted. This has led, particularly in the major cities, to a sharp increase in the number of households either homeless or living in non-tenure accommodation - bed-and-breakfast accommodation, hostels, squats, etc.

After the re-election of the Conservative Party in 1987 the government continued to develop its policies, and in 1988 its Housing Act was approved by Parliament. The following policies provided the basis for subsequent legislation:

- a continued expansion in owner-occupation;
- an expansion of the independent rented sector;
- local authorities to be encouraged to limit their housing functions;
- a more efficient targeting of public expenditure;
- bringing rent levels more in line with market values.

The Housing Act led to the introduction of a number of measures (Bol  at, 1989; Hollander and Schuiling, 1989; Karn, 1988):

- All new private sector tenancies were to be assured or "assured/shorthold". Under assured or assured/shorthold tenancies rents were to be set by agreement between tenant and landlord. In the case of an assured/shorthold tenancy the landlord was not required to extend the length of the tenancy beyond the sixth month. This effectively put an end to rent controls for new lettings in the private sector.
- Regulations affecting housing associations were modified:
 - New housing association tenancies were no longer to be at fair rents. Because housing associations were deemed to be part of the private sector, assured tenancies also applied here.

- Housing associations were to rely more on the capital market for investment.
- The involvement of central government, in the form of capital investment and subsidies, was to be considerably reduced.
- Housing Action Trusts (HATs) were to be established in those areas where housing problems were most acute. They were to be created by central government and to have far-reaching responsibilities. The function of a HAT is to take over the running of problem housing estates from the local authority in those areas designated by the Secretary of State. The estates are to be improved and then sold to Housing Associations, private landlords, or sitting tenants. Tenants can also choose to retain the local authority as its landlord.
- The Housing Act introduced the right of tenants' choice for local authority tenants. Under this groups approved by the Housing Corporation are eligible to purchase homes off the local authority. These groups can request that tenants be balloted on whether they support such a transfer. Where a majority of tenants approve (subject to the controversial condition that abstentions count as votes in favour), ownership of the estate is transferred. Tenants who vote against the transfer can remain local authority tenants, but the local authority then has to rent these homes from the new owner. The local authority then has the choice of whether to pay any subsequent rent increase itself or to pass this on to the tenant.
- In general the Conservative government believes that the primary function of local authorities in the field of housing is not to be that of a landlord, but to provide opportunities for housing associations and other landlords. They should locate bottlenecks in the housing market and, in co-operation with developers, financiers, landlords and owner-occupiers, try to ensure that supply and demand are in equilibrium. In short, they are to be "strategic enablers".

7.5 Housing policy in the 1990s

The housing policy pursued by the Conservative government since 1979 will be continued in the 1990s. Its major features will be the reduction of public expenditure on housing through a combination of rent increases and greater reliance on the capital market for investment, a continuation of the switch from supply subsidies to demand subsidies, an increase in owner-occupation, and the privatization of the rented sector.

The Local Government and Housing Act 1989 introduced the following measures:

- A new system of financing local authority housing. This new system is intended (Papa, 1991):
 - to ensure greater financial control;
 - to target public expenditure on housing more efficiently;
 - to bring local authority rents more in line with market rents.

The management of local authority housing is to be made independent of local authority revenues so that it is no longer possible to subsidize rents from general revenue. The various grants are replaced by one Housing Revenue Account Subsidy. The assumptions concerning rent rises and increases in costs, which had previously led to annual revisions in the level of the grants, are now to be considered separately for each local authority. In this way the subsidy can be targeted more effectively. For many local authorities these new subsidy rules will mean that rents will have to be increased significantly.

- A new and simpler system of improvement grants. A new system of mandatory grants for improvements up to a specified standard is suggested. In addition, a local authority can provide limited grants for improvements above this standard or for improvements to communal spaces in blocks of flats. Owner-occupiers, landlords and tenants can apply for these grants. Because the grants are aimed specifically at those who are least able to pay for improvements, the grant is means-tested and its level is therefore dependent on the income and savings of the owner-occupier or the tenant. In the case of landlords the level of the grant is dependent on the difference between the increase in costs that result from financing improvements and the increase in rental income which can be obtained as a result of these improvements.

In order to be awarded a grant the applicants have to undertake:

- to live in the house for a minimum period of one year subsequent to completion of the work (in the case of owner-occupiers);
- to keep the property available as rented accommodation for a minimum period of five years (in the case of landlords);
- to use the house as their principal or sole place of residence (in the case of tenants).

Government policy for the 1990s is outlined in the 1990 Public Expenditure White Paper. The promotion of owner-occupation (currently 68% of households in England are owner-occupiers) remains one of the most important elements of its housing policy. There are risks attached, however, to this sharp increase in owner-occupation. The rapid rise in mortgage rates during the last few years has led to repayment difficulties for many house buyers. In 1990 44,000 homes were repossessed by the banks, compared with 16,000 in 1989, and 26,000 in 1987 (the previous record).

The private rented sector, attracted by the deregulation of rents and the provisions for tax relief, is expected to be able to provide a significant proportion of new housing for those households unable or unwilling to buy.

The construction of new subsidized rented housing is primarily regarded as the responsibility of housing associations. It is hoped thereby to give tenants greater choice and to break the near monopoly of the local authorities. Housing association investment in 1992/93 is expected to be around twice as much as in 1988/89, partly as a result of its ability to attract private sector financing.



From 1990/91 grants will be available to tenants through the Housing Corporation to enable them to buy their own homes so that the cheaper rented accommodation can be made available to low-income groups. This replaces the grant previously available to housing association tenants who wished to exercise their right to buy.

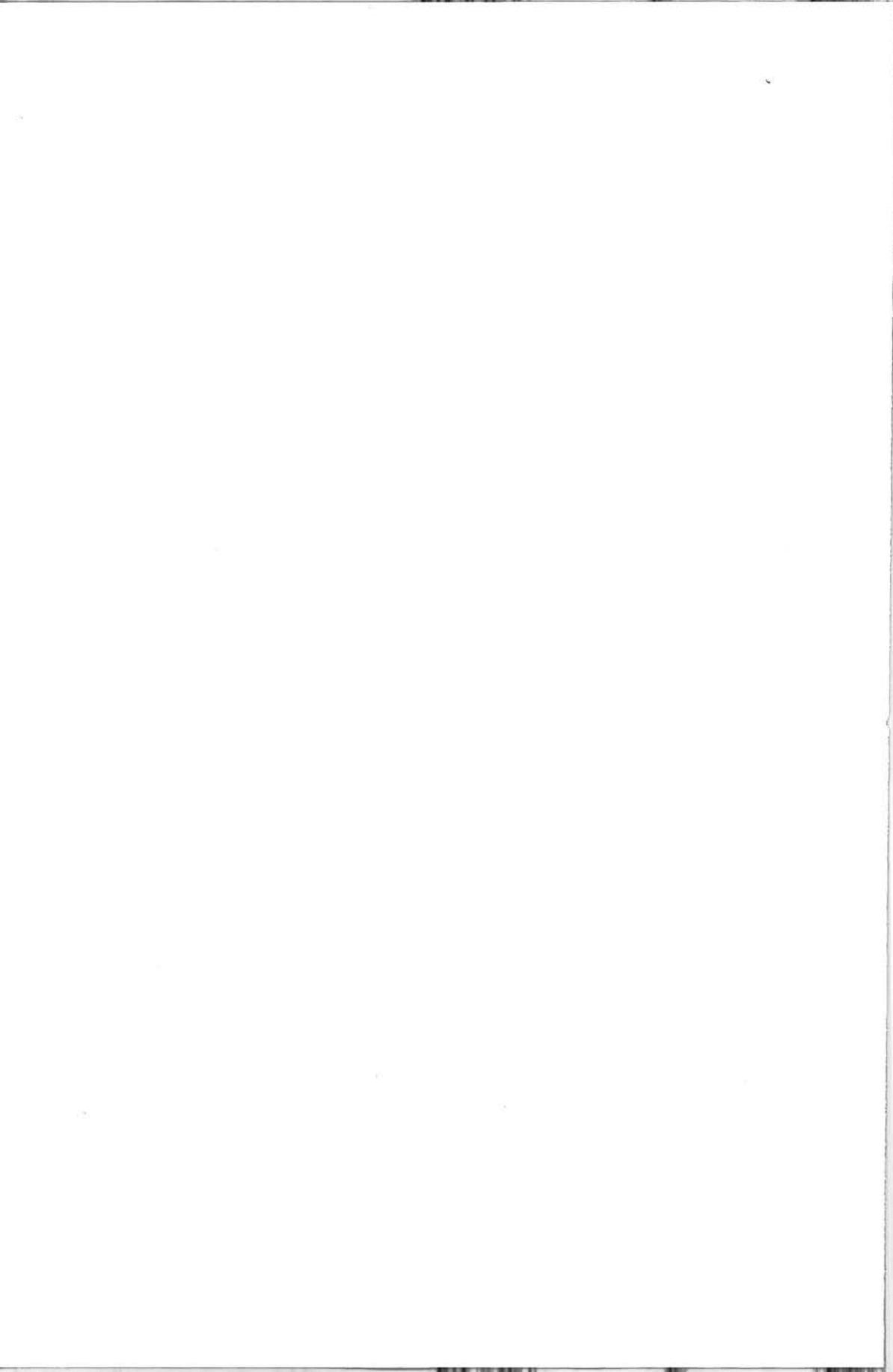
The Housing Corporation is to be given an extra £73 million by central government to provide, in co-operation with local authorities, accommodation for the homeless. They will be able to do this by purchasing existing housing, improving empty local authority and housing association property, or by opening hostels in areas which have a shortage of temporary accommodation.

Local authorities are required to continue to provide housing for the homeless. In addition to this the government considers the functions of local authorities to be:

- the improvement of its own housing stock, where necessary, and the efficient management of that stock;
- helping landlords improve their property;
- encouraging housing associations and private sector investors to provide accommodation for low-income households where necessary.

Kearns and McLennan (1989) have described the government's policies for the 1990s as "grand ideas and poor finances". The intended expansion of the rented sector will have to be effected by housing associations or the private sector. The success of government policy is thus dependent to a large extent on private sector investment. It is questionable, Kearns and McLennan argue, whether the necessary financial resources will be available, and whether housing associations will dare to take on the risks associated with borrowing in the capital market. The government is unable (or unwilling) to give guarantees concerning interest rate levels or the level of housing benefit.

While the existing stock of public rented housing will be transferred into owner-occupation, it is far from clear whether enough housing can be provided in the coming years for those households on lower than average incomes.



8.1 Administrative and legal systems

The present system of public administration in France dates back to 1983; during the two years prior to then, a series of major reforms were introduced under President Mitterrand (Mastop et al., 1989: 45). Until 1983 government was highly centralized. As a result of legislation passed in 1982 and 1983, many of the functions for which national authorities had been responsible were transferred to lower levels of administration.

In addition to central government, there are three other levels of public administration: the regions (22, created in 1959 by combining départements), départements (96), and no less than 36,443 municipalities. The urban growth of the last two centuries has had hardly any effect on municipal boundaries and, as a consequence, most cities in fact consist of several municipalities. There are also municipal associations in both urban and metropolitan areas. The administrative body of such an association sometimes has a large degree of autonomy (Mastop et al., 1989: 45; United Nations, 1984: United Nations, 1988).

Unlike in most countries of Western Europe, there is no hierarchical structure within the system of public administration. Each level of administration has its own functions and powers and is not responsible to a higher level of public administration. Central government supervises the other levels of public administration. In the regions, the départements and the municipalities central government, represented by the préfet, is responsible for ensuring that policies pursued at lower levels of administration are consistent with national interests, laws and public order, and the policies of central government. Furthermore, large-scale projects, such as the development of new towns or important urban extensions such as those at La Défense, Orsay and La Villette in Paris, are the responsibility of the Établissements Publics d'Aménagement, which is controlled by central government. In the field of housing, too, the influence and power of central government is considerable, partly because it provides a significant proportion of total housing finance. Mastop et al. (1989: 45) have argued that despite the decentralization of power during the early 1980s, central government in France still has considerable influence, certainly when compared with the system of

public administration in other West-European countries.

The regions in France have three functions: firstly, to implement national-level plans; secondly, to develop their own regional plans; and, thirdly, to provide subsidies to local authorities (NEI, 1989). Since 1983, municipalities have been responsible for local housing plans. This means the quality and number of houses to be built is decided in consultation with administrators, local institutions and inhabitants. The region is entitled to give assistance additional to the subsidies provided by the state (Marchal, 1989; Streekstra, 1984).

As part of the administrative reforms introduced in 1982 and 1983, responsibility for many fields of policy was decentralized. Housing, however, was an obvious exception. One reason for this is the disparate nature of public administration in France, and, particularly, the large number of municipalities. A second is the fact that the municipalities are not officially responsible for housing the homeless. Thirdly, public expenditure on housing is considerable, and central government is concerned to ensure that it retains as much control as possible over this; annual public expenditure on housing is around FF 120 billion (including FF 30 billion that is technically social security expenditure but which is spent on housing, mostly as part of a programme of family support).

The fact that a significant proportion of public expenditure on housing takes the form of subsidies is another reason why much power continues to be concentrated in central government. Only one sixth of public aid takes the form of supply subsidies. These supply subsidies are distributed across all the municipalities.

The départements vary in the way they allocate the limited public subsidies they receive from the government. Some emphasize the need to improve existing housing, whereas others prefer to build new housing.

The level of public expenditure on housing is fixed by Parliament in the annual budget and is consistent with a socio-economic five-year plan. Grants are distributed on the basis of départements' and municipalities' needs (United Nations, 1988: 16).

As part of the reforms of the early 1980s, regulations governing the provision of building permits were rationalized and in 1986 the mass of rules was replaced by a much simpler system which lay down minimum requirements for building.

8.2 Environmental factors and environmental planning

A number of specific spatial characteristics have a major impact on housing development in France (United Nations, 1988: 9). Firstly, the country is extremely large; after the USSR and Germany, France is the largest country in Europe. Large parts of the country (particularly the mountain areas) are thinly populated. Secondly, the concentration of mining areas in the north and the east has had major consequences for industrial and residential development. The long (almost 6000 kilometre) coastal area has also affected the pattern of urban development. Finally, the French soil is rich in rock formations and these pro-

vide the basis for the manufacture of good-quality building materials. Because of this, many old dwellings are in good condition, though a significant proportion still lack modern comforts.

The distribution of the population within France is far from uniform. Thus in 1990, of its 56.6 million inhabitants only 15.2 million lived in rural municipalities. This number has been decreasing since the 1970s. Paris continues to dominate the urban areas.

In the 1950s and '60s considerable emphasis was laid on the rapid construction of large-scale high-rise residential blocks: the *grands ensembles*. Many of these fell into decay as early as the 1970s as a result of, among other things, poor planning, or rather the lack of any planning (some of the housing blocks built in the 1950s and '60s have proved successful however). The blocks were often developed on poorly-accessible sites on the periphery of the city and were poorly served by shops, schools and other public amenities. Moreover, little account was taken of the need to relate housing location to employment location.

After 1958 efforts were made to address these developments by creating so-called *Zones à Urbaniser par Priorité (ZUP)*, priority planning zones, where public investment was concentrated. These had to be integrated into the municipal development and structure plans that had been required since 1957. Pearsall (1984: 21) notes, however, that attempts to ensure housing developments were consistent with these plans often failed. Structure plans were implemented with difficulty, they were inflexible, quickly outdated and inappropriate for controlling urban growth. The result was that ZUPs were often drawn up before a structure plan or a municipal development plan. It was not until the end of the 1960s that the system and implementation of urban planning was significantly improved.

In 1967, therefore, the old planning system was replaced by the *Plan d'Occupation des Sols (POS)*, a land-use plan, and by the *Schéma Directeur d'Aménagement et d'Urbanisme (SDAU)*, a structure plan. The ZUPs, too, were replaced by the *Zones d'Aménagement Concerté (ZAC)*, a local development plan. Both the SDAU and the POS were compulsory for urban areas with more than 10,000 inhabitants. SDAUs were drawn up by central government in consultation with local authorities. According to Mastop et al. (1989: 47), however, central government had a greater influence on the form of these plans. Only the POS were legally binding. As in almost all countries in Western Europe, however, the POS was more concerned to prevent undesirable rather than to encourage desirable development. There was criticism too of the procedures associated with the POS. Individuals often did not know where they stood. There was little consultation (residents were not consulted during the development phase of the plan, for example), and an appeal was possible only against the formal procedure of the planning process and not against the contents of the plan (Mastop et al., 1989: 49).

Pearsall (1984: 28), too, notes that the plans were not always that successful. The right of ownership, so deeply engrained within the French mentality, often

led to considerable resistance when these rights were restricted by planning measures. This led to delays in implementing land-use plans. And the préfet's power to limit undesired urban development in the periphery was limited. The economic crisis in the 1980s strengthened the call for the government to take a less active role in controlling urban development as a means to reduce public expenditure. Further, the political pressure that had developed since the beginning of the 1970s to protect the natural environment became less effective.

In addition to housing policy, the second half of the 1970s saw reforms in the field of environmental planning (see section 8.4.2). In particular, the concentration of growth in a number of regional centres, a policy advocated until the 1970s, was abandoned. The smaller cities and villages and the surrounding areas that supplied them with food, raw materials, and sometimes labour, were too disadvantaged by this system. A new system was introduced whereby contracts could be concluded between the state and smaller municipalities (or associations of municipalities) to finance the provision of infrastructure.

The POS and the SDAU, too, remained in force during the 1970s. They were supplemented in 1977 by the so-called Plans de Référence. These included projects developed as part of a separate five-year plan; these five-year plans were introduced to help better co-ordinate POSs and, moreover, they ensured that central government was financially involved in the preparation of plans. The Plans de Référence have no legal force.

In 1982 the planning system was once again reformed (Mastop et al., 1989: 47). Co-operative associations of municipalities were given responsibility for structure plans (SDAU), and land-use plans were no longer compulsory for urban areas. An approved municipal land-use plan was required, however, to include powers to compulsorily purchase land and the power to issue permits for building, demolition, and for subdividing land.

Despite the municipalities' right to develop their own POSs and SDAUs, they often lack the financial means to do so. Many municipalities are therefore forced to depend on central government assistance, and, in return, central government can force changes to be made in these plans.

In order to implement urban renewal projects the Opérations Programmées d'Amélioration de l'Habitat (OPAH) was introduced in 1977. Under this scheme finance was provided by local and central government to improve both housing and the residential environment. These OPAH can be compared with the urban renewal areas in the Netherlands and the General Improvement Areas in Britain.

When they were first introduced, they were mostly concerned to improve older, nineteenth-century districts. During the 1980s greater emphasis was placed on rehabilitating post-war housing districts. A special commission was established to examine housing provision in suburban residential areas, and special programmes were developed to facilitate public investment in these areas (Pearsall, 1984: 38).

The 1985 Urban Development Act provided a formal basis for the process of urban renewal. This act makes the municipality responsible for urban renewal

programmes. In practice, however, central government retains considerable influence. Under this act a municipality can, among other things, compulsorily purchase property for the purpose of urban renewal, has a prior claim in cases where buildings in urban renewal areas are sold, and may demolish buildings as part of its urban renewal programme. According to Mastop et al. (1989: 55), an important objective of urban renewal in France is, apart from improving the physical condition of cities, to ensure that the original occupants continue to live in the urban renewal areas after renewal. Landlords often increase rents considerably in urban renewal areas, however, and, as a result, the original occupants are forced to leave the area entirely.

8.3 The organization of the housing market

8.3.1 Housing tenure

The housing market in France consists of the following sectors: the owner-occupied sector (54%), the private rented sector (20%), the social rented sector (17%), and other tenure types (9%) (1988 figures). As in most other West-European countries, the owner-occupied sector has grown steadily in recent times: from 41.3% in 1962, to 43.2% in 1968, 46.6% in 1975, 50.7% in 1982 and 54.3% in 1984. During the last twenty years the proportion of owner-occupied single-family housing has increased markedly. In 1970 the proportion of multi-family housing was about the same as that of single-family housing; after 1970 a greater proportion of single-family housing was built, and by 1980 twice as many single-family dwellings as multi-family dwellings were being built. The high proportion of apartment-type dwellings prior to then can be explained by the fact that rent controls during the inter-war period led to the sale of many apartment dwellings. It was only in the 1960s that there was a strong ideological orientation towards owner-occupied housing, and mortgage schemes were developed to enable even those on low incomes to become owner-occupiers.

According to Boucher (1988: 327), however, it has become impossible for increasing numbers of households to purchase a house. The largest growth in the owner-occupied sector took place during the period 1965-75. The increase in construction costs and the costs of financing housing during the 1980s led to stagnation in the owner-occupied sector. Moreover, the decline in the rate at which real incomes grew and the greater risks perceived to be attached to owner-occupation also played a role. The stagnation that occurred in the 1980s particularly affected new apartment building in the cities. New single-family housing development on sites peripheral to the city (where land prices were relatively low) declined much less.

In times of recession owner-occupiers face the prospect of seeing the value of their dwelling falling considerably, and being unable to sell their house without incurring perhaps significant losses. Many of them become prisoners in a sense, tied to their home, unable to move. Although they may be unemployed, they cannot move to seek work elsewhere. In spite of increased public assistance, the

level of debt among owner-occupiers increased by an average of 12%, and in the subsidized owner-occupied sector (see section 8.4 for a discussion of PAP loans) 4% of borrowers defaulted on loan repayments each year because of the decline in their real incomes, often due to divorce or unemployment (von Hermann, 1985).

The relative size of the private rented sector fell during the 1970s. In 1982 25% of the total housing stock and 66% of the rented housing stock was private rented sector housing, but, partly because of the transfer of rented housing to the owner-occupied sector, these percentages declined during the course of the 1980s. Within the private rented sector one can distinguish between housing built under the different rent acts passed between 1948 and 1989. Thus in 1988 14% of all private rented dwellings were still subject to the rent act of 1948 (this figure represents a sharp rise over 1982, when the corresponding figure was 12%). These tenants have two important rights: they have security of tenure and their rents are tightly controlled. When the act was introduced in 1948, these restrictions only affected existing dwellings, and the large-scale new construction built after 1948 remained outside the scope of this legislation. Secondly, the act only applied to urban areas, cities with more than 4000 inhabitants, and cities damaged in the war; and even where the act did apply, directives were often not enforced. Thirdly, over the past few decades various governments have attempted to freeze rents as part of a policy of social control. This has had major consequence for the level of maintenance reserves and thus the maintenance and repair of dwellings. Boucher (1988: 297) therefore concludes that the main objective of the 1948 act, namely the introduction of market rents, was not achieved. Consequently, the level of rents, the amenities provided, and the condition of housing within the private rented sector vary considerably.

Until 1982, when the second rent act was introduced, most private rented housing was free from rent control (this unregulated sector constituted some 86% of the total private rented housing stock in 1982). Leases were drawn up for periods varying from between one and nine years. Rents were calculated on the basis of market values (derived from construction costs). The 1982 act established the legal rights and duties of tenants and landlords for the first time (section 8.4.3). After the act was introduced, the number of private rented sector dwellings being built declined significantly.

A new act passed in 1986 restored to landlords some of their former rights. A degree of tenant protection, albeit limited, was maintained however (see section 8.4.3). The 1986 act was subsequently modified in 1989 to limit rent increases for sitting tenants.

Despite deregulation in 1986, little private rented housing is now being built. Whereas 54,000 new private sector rented dwellings were built in 1974, the corresponding figure for 1984 was 5000 (Boucher, 1988: 321). Developers tend to sell new housing quickly in order to free capital for future investment, and organizations wanting to invest capital, such as banks and insurance companies, often buy these new housing developments (von Hermann, 1990: 67).

One of the smallest sectors within the housing market is the social rented

sector, which accounts for 17% of the total housing stock. We consider this in some detail in section 8.3.2 because it is in this sector that the degree of direct public involvement is greatest.

8.3.2 The social rented sector

In France social rented housing is built and operated by HLM institutions (*Habitations à Loyer Modéré*). The HLM movement emerged at the end of the nineteenth century, when philanthropic citizens tried to build cheap rented housing for the working class. Because of an inadequate legal, financial and organizational structure, the municipalities were unable to do this themselves (Pearsall, 1984: 15). In the first half of the twentieth century these HLM organizations were supported by the government. After 1945 they were reorganized to play an important role in alleviating the housing shortage that had arisen because of the war (Pearsall, 1984; Boucher, 1988).

There are currently more than 1200 HLM institutions, with a stock of over 3.14 million rented dwellings; they have also been responsible for the construction of more than one million social owner-occupied dwellings. Within the HLM movement there are two main groups: the *Offices Publics de HLM* (OPHLM) and the *Sociétés Anonymes de HLM* (SAHLM). The distinction is a legal one; the OPHLM are constituted under legislation applying to the public sector, and the SAHLM are limited liability companies whose legal status is set out in legislation that generally applies to private companies. The OPHLM can be considered non-profit organizations, whereas the SAHLM are permitted to make limited profits. The SAHLM are mainly concerned with the construction of subsidized owner-occupied housing for those on low incomes. The organization has strong connections with trade unions and has priority under the 1% employers' payroll levy scheme (discussed in section 8.4.1). The relative importance of the SAHLM and OPHLM has changed over the last forty years. Between 1955 and 1965 60% of new HLM housing was built by the OPHLM and 40% by the SAHLM. In 1979 they both built around 26,700 dwellings; by 1981 the importance of the SAHLM had grown considerably and they were responsible for the construction of 61% of all HLM housing (Boucher, 1988: 312).

In addition to the OPHLM and SAHLM there are also two other smaller public sector non-profit organizations, the *Sociétés Co-opératives de HLM* and the *Sociétés de Crédit Immobilier*. These two play a modest role in the housing market (accounting for 3.5% of total new HLM housing).

The HLM institutions vary widely in size, financial activity, the number of dwellings they operate, and where they operate. The institutions are organized at municipal and regional level (Boucher, 1988: 312). They are managed by a council consisting of members appointed by the *préfet* of the *département* and by other organizations (including municipalities, saving banks and tenants). In 1987 tenant and local authority representation within HLMs was increased.

The HLM institutions co-operate closely at the regional level. At the national level they are united in the *Union Nationale des Fédérations d'Organismes d'HLM* (UNFOHLM). This umbrella organization is well-organized and has

considerable influence on government housing policy. Of the 800 Members of Parliament, around 200 are also council members of a HLM institution (van der Laar, 1990). The influence of the French Communist Party (PCF) on a considerable number of HLM institutions is particularly significant. In 1983 the PCF was on the board of 64% of HLM institutions in those cities with more than 30,000 inhabitants. The PCF regarded the setting up and managing of HLM institutions as a way of strengthening their influence on the working class (van Giessen, 1985: 126).

HLM institutions are supervised by the *préfet*. Since the Second World War central government has introduced a number of directives to control the activities of these institutions. Its chief influence, however, is its power to grant subsidies. Central government can thereby influence the level of new housing construction to ensure that it is consistent with the government's broader social and economic objectives.

HLM institutions lease their dwellings to low-income groups. Income criteria are applied; these may vary, according to the size and specific characteristics of the household, the dwelling type and the location. Pearsall (1984: 16) notes that the allocation of housing by HLMs has long been a source of dispute with the government (see also von Hermann (1990: 66)). The HLM are not permitted to make a loss in operating their housing stock. They therefore refuse to accept tenants who, in their view, are unable to meet their financial commitments in the long term. HLM institutions do not realize completely their primary task of housing those on very low incomes. Households with an income less than the minimum wage have particular problems in renting from HLM institutions. This category includes not only the unemployed (of whom there were 2.55 million in 1990), but also many hundreds of thousands of part-time workers, and temporary and seasonal labour. The problem stems from the fact that, in principle, rents may not exceed more than 25% of a household's income at the time the dwelling is allocated. For even a simple two-room dwelling in an old HLM block, however, one has to pay at least FF 2000 a month. The tenant must therefore earn at least FF 8000 a month, and this implies having to have a permanent job.

Foreigners and ethnic groups are also disadvantaged in renting housing. These groups constitute 30% of those seeking housing, but in only 5% of cases do they succeed. HLM institutions may refuse to rent to those who, in their view, are "bad tenants". Often the ethnic origin of those applying for housing is taken into consideration, in addition to characteristics of social behaviour, even though racial discrimination is forbidden in France. Theoretically, the *préfet* can influence the allocation of housing, and can make recommendations as to the allocation of the HLM dwellings that become vacant in his or her *département*. In practice, however, such powers are rarely used.

Another problem with the allocation of housing is that under the 1% scheme a significant proportion of the dwellings that become vacant have to be allocated to the enterprises that financed the construction of the dwellings, and that housing applicants nominated by local authorities also have to be housed. The

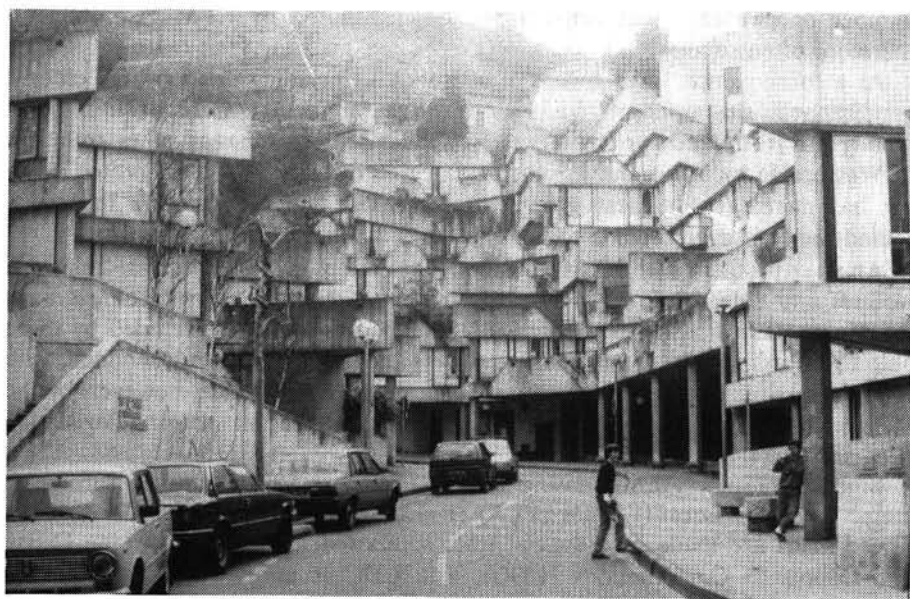
number of dwellings that can actually be distributed by HLM institutions is therefore often small.

As a consequence, large groups of households (including the poor, the elderly, handicapped, single-parent families and large families) are forced into poor-quality private rented sector housing. A similar pattern exists in other countries in Western Europe too, but in most the degree of access to social rented housing has increased for these groups over the last few decades and the social rented sector is even tending to marginalize the better-off in some countries.

Another problem with HLM housing is that many HLM tenants are relatively well-off and able to afford higher private sector rents. The low-income groups for whom HLM housing is theoretically intended are thereby excluded by those able to afford private sector housing. Several governments have attempted, with little success, to change this situation. Some progress was made, however, by the housing reforms introduced in 1977 and by more recent housing legislation (Pearsall, 1984: 16).

Since 1977 new HLM housing has been financed by means of subsidized loans: the *Prêts Locatifs Aidés* (PLA) (Pearsall, 1984: 40; Boucher, 1988: 312). These loans are made by a special state sponsored funding agency: the *Caisse des Dépôts et Consignations* (CDC). The CDC is entitled to scrutinize the financial management of HLMs and it can refuse to loan money if it judges the risks associated to be too great. The PLAs granted can be used for both new construction and the purchase and the improvement of existing dwellings. The costs of taking over or repairing existing housing are comparatively high, however, and in practice most PLAs are used to construct new housing. PLAs can also be granted to individuals who want to build social rented housing. The proportion of building costs covered by the loans is different in this situation. In the case of HLM institutions, 95% of housing costs can be covered by PLAs; for enterprises providing housing under the 1% scheme (see section 8.4.1), the corresponding percentage is 65; and for other organizations it is 55. Clear conditions are attached to PLAs concerning housing quality (size and amenities provided), costs (maximum land costs and maximum construction costs), and the allocation of housing (related to the income of the tenant).

When a loan is granted a contract is concluded between the lessor and the government in which the terms of the loan and the level of rent subsidy, the *Aide Personnalisée au Logement* (APL), are fixed. The APL is paid directly to the organization that operates the housing; in turn, it determines the level of rent on the basis of the household and income of the tenant. The level of rent also reflects loan costs, costs of maintenance and major improvements, reserves and management costs. As in the controlled private rented sector, rents are also partly determined by the size of the house and corrected for other factors. Furthermore, rents are subject to a legal minimum and maximum and may be adjusted every six months by a percentage agreed on with the government. Since the housing stock of HLMs was built at various periods, and rents may consequently vary considerably, HLMs are able to raise the rents of older housing and lower those for new housing. Rents can thereby be brought into line with each



other, and adequate maintenance reserves can be provided for the older housing stock.

This approach often leads to problems, however, especially for older tenants, some of whom face financial problems because of this system of rent adjustment. As a result of this approach, the HLMs face losing 5% to 10% of their total revenues from rent (von Hermann, 1988).

Boucher (1988: 314) notes that it is becoming increasingly difficult for HLM institutions to finance the construction of new social rented housing. The principal reason for this is high interest rates. One solution would be to increase initial rents, but it is thought that this would lead to an increase in the costs of housing benefit.

Tenant organizations are fairly well-developed in France, and they particularly benefited from the rent legislation approved in 1982. Under this legislation lessors were compelled to negotiate each year with representatives of tenant groups. The most important tenant group for the HLM sector is the Confédération Nationale du Logement (CNL). The CNL is fairly strong and has a significant degree of influence (van Giessen, 1985: 125).

There is an independent housing advisory body: the Conseil National de l'Habitat. It was established in 1983 and replaced two separate councils, one representing the interests of owner-occupiers, the other concerned with housing benefit (Conseil National de l'Habitat, 1984). The Conseil National de l'Habitat is also responsible for determining the norms used in calculating the level of housing benefit which come into force in July of each year. Its recommendations are binding. The Council also has the power to make recommendations on any matter related to housing, whether or not specifically asked to do so by the government. In such cases, however, the government is not obliged to accept these.

A more important advisory body is the Cadre de Vie department of the Conseil Économique et Social (CES). This organization regularly publishes reports on housing and has considerable freedom in deciding on what aspects of housing to report. In May 1989 it published an important document: *Le bilan et les perspectives du logement en France* (Petrequin, 1989), which included an analysis of the development of French housing policy and the problems facing the housing market (see section 8.5).

8.3.3 The construction industry

Like many other sectors of the economy, the construction industry in France was dominated by small traditional enterprises during the 1950s. Moreover, these enterprises tended to resist the introduction of modern industrialized construction techniques and of new building materials. The Ministry of Housing therefore developed a series of research programmes and other schemes aimed at modernizing the industry. In addition, two state enterprises were established in 1954: the Société Centrale d'Équipement du Territoire (SCET) and the Société Civile Immobilière de la Caisse des Dépôts (SCIC). The latter is still active and was responsible for constructing most of the HLM housing built during the

Table 8.1 New housing construction, 1975-80, by sector (%)

Year	HLM	Central/ local government	SEM	Building companies	Other enter- prises	Private house- holds	Total
1975	26	1	2	27	4	41	539 202
1976	21	1	1	26	4	48	666 885
1977	21	1	1	25	3	49	504 248
1978	21	1	1	21	3	53	469 155
1979	17	1	1	22	4	55	461 994
1980	15	1	1	27	4	52	500 679

Source: United Nations (1984: 59)

1950s and '60s; the SCET was more involved in drawing up and implementing urban development plans.

In 1963 the government established a new type of enterprise: the Société d'Économie Mixte (SEM). They have several functions, including the co-ordination of public and private enterprises within the framework of development projects, and the sale and purchase of land on behalf of the state. These organizations are also able to combine the advantages of being a semi-government organization (particularly as regards the power to acquire land) with the flexibility, the financial resources and the expertise available in the private sector. In the case of urban renewal projects, particularly, SEM enterprises are increasingly common. The advantages of the SEM for the government are fairly clear; the SEM are able to attract private investment at a time when the government is trying to reduce the level of state involvement in, and expenditure on, housing (Pearsall, 1984: 19).

Table 8.1 illustrates the level of new housing construction during the period 1975-80.

The proportion of dwellings built by central and local government is small and relates mainly to housing for civil servants. The proportion of housing constructed by SEM enterprises is similarly modest. The category "Building companies" includes those firms whose principal activity is the construction of housing for the housing market. "Other enterprises" includes those for whom housing construction is not the principal activity.

The proportion of total new housing built by HLMs decreased from 26% to 15% between 1975 and 1980. The number of houses built for private households grew most: from 41% in 1975 to 52% in 1980. The proportion of new housing built for the housing market by building companies remained fairly steady during the period 1975-80 at around 27%. Since 1974 fewer large housing development projects have been realized. Many individuals select the type of home they want built from standard models illustrated in catalogues.

The construction industry has adapted to the changing pattern of demand in a number of ways. Firstly, there has been an increasing degree of concentration

within the industry. Secondly, the degree of skilled craftsmanship has grown in response to the smaller scale of housing construction projects. The number of medium-size enterprises has fallen as a result, while the number of large and small enterprises has increased. The growth of small enterprises can be explained by the fact that many of those formerly employed in medium-size enterprises have established their own companies. They are increasingly used by larger companies as subcontractors (United Nations, 1984: 87; United Nations, 1988: 65).

8.4 The development of housing policy 1970-90

8.4.1 Background

Like most countries in Western Europe, France was faced with a serious shortage of housing after the Second World War. Around 20% of the pre-war housing stock had been heavily damaged (1.4 million dwellings) or even destroyed (0.5 million). The remaining 80% was in poor condition. The rent controls introduced in 1914 had ensured that landlords spent little on maintenance and improvement, and they were one factor leading to the subsequent withdrawal of many private investors from the housing market; the result was that few (only 1.6 million) dwellings were built during the period 1919-39. Further, the housing shortage was exacerbated by the rising flow of immigrants from Southern Europe and Africa and by the post-war baby boom.

In order to avoid spectacular increases in rents and to alleviate the housing shortage, a new rent act was introduced in 1948; it related only to houses built after 1948 however (12% of the total private rented stock in 1988) (Pearsall, 1984; Boucher, 1988; McQuire, 1984; van Giessen, 1983). This act was the outcome of a political compromise between the Socialists and the Christian Democrats. On the basis of a system that weighted rents according to the size of the house, they tried to find an objective way of determining the value of housing services. Each dwelling in the private rented sector was classified according to its quality, and the government then determined the level of rent per square metre that could be charged. As a result of these legal provisions rents have been gradually increased (van Giessen, 1983). Under the 1948 act rents were fixed at around 12% of a tenant's net income on rent. In practice, this amount, which was largely determined by rent controls in force between 1914 and 1940, was only around 5% in 1948 (Boucher, 1988: 297).

In spite of traditionally low housing costs and of rent controls, many households had difficulty in affording housing. In order to help these households, a form of housing benefit, the Allocation Familiale Logement, was introduced. This subsidy is still operational (for a description see Papa, 1991).

The level of new housing constructed remained low during the first years after the Second World War. The private sector concentrated its investment on industrial and commercial infrastructure. The government therefore provided large sums of money and developed a series of initiatives to help stimulate the

construction of new housing. Its response may be contrasted with that of, say, the FRG. This broad state involvement in housing led to the following developments. Firstly, a broad public sector, consisting mainly of rented dwellings (financed by public funds), was created. Secondly, a mixed housing sector emerged in which both public and private finance was used in constructing rented and owner-occupied dwellings (Boucher, 1988: 298). New housing construction was realized, therefore, within the framework of two subsidy schemes: one for dwellings with a modest rent or price (Habitations à Loyer Modéré, HLM), the social sector; and a second that subsidized private rented dwellings, the *Secteur Aidé*.

The social sector (HLM) is still supported by the most important housing construction subsidy schemes in France (see section 8.2.2). The resources are provided by the state in the form of loans and subsidies. In order to encourage new housing construction, loans were granted at low rates of interest (2% per year and a repayment period of 65 years). Moreover, 90% of the costs of construction could be financed under these favourable terms. The state in turn determined the maximum level of construction costs and the minimum level of housing quality for subsidized dwellings. Until well into the 1960s, new HLM housing accounted for most new housing. In spite of minimum quality requirements, however, housing construction was mostly assessed in terms of quantity built. During this period, for instance, the *grands ensembles* were built. The use of rather poorly-developed and poorly-applied prefabrication techniques resulted in qualitatively poor and unattractive high-rise blocks containing small flats, usually on the periphery of large cities and now characterized by major problems.

In spite of the fact that under the HLM scheme owner-occupied dwellings could also be built, the *Secteur Aidé* was introduced in 1950 to stimulate owner-occupation. Through the *Crédit Foncier de France* loans could be obtained at rates fixed for a period of twenty-five years to cover up to 70% of construction costs, and a subsidy of FF (old) 600 for each square metre of proposed housing space was also available. Here, too, minimum quality requirements were imposed and rents were controlled once the dwellings were let. This scheme has been considered particularly successful, and by 1963, when the programme was finished, some 1.6 million middle-class dwellings had been built (Pearsall, 1984: 17-18).

Another important source of financing new housing construction was the introduction of the 1% scheme in 1953. Under the scheme enterprises with ten or more employees were obliged to devote an amount equivalent to 1% of total salary costs (the present figure is 0.67%) to housing construction. In exchange, a proportion of the available rented and owner-occupied dwellings was reserved for their employees. The largest enterprises developed their own housing programmes, while most others preferred to work through the *organismes collecteurs*, of which the most important are the *comités interprofessionnels pour le logement* (CIL).

Originally the amounts raised under this scheme were modest, but later this

source of finance gradually became more important. It is now a more important source of housing finance than state housing construction subsidies. The allocation of housing by HLMs is severely restricted by this scheme. Thus in 1968 the proportion of total new housing to be built under the 1% scheme was limited to 40% (van Giessen, 1983: 3).

In addition to introducing major reforms affecting housing finance, the government also introduced changes into the construction industry at the beginning of the 1950s (see section 8.3.3).

During the period after 1960, housing finance was again reformed in order to attract more private sector funding. Both the Secteur Aidé and the HLM institutions were reorganized. The level of government subsidies was lowered and the influence of the public sector reduced; that of the banks and other private financial institutions was correspondingly increased.

8.4.2 The period 1970-80: towards less government intervention

According to Pearsall (1984: 28), it was not until the beginning of the 1970s that housing policy was really reformed. These changes were the result of a number of external factors. The rapid increase in population during the previous two decades was slowing down, and it was predicted that France would have zero population growth by the year 2000. Moreover, the pattern of urbanization had changed significantly. Medium-size cities continued to grow, whereas the level of growth in the large cities with more than half a million inhabitants (Paris, for example) declined considerably. Furthermore, the large number of dwellings built in the 1950s and '60s had alleviated the worst of the housing shortage, and the quality of housing was, on average, much higher than at the beginning of the 1960s (see Table 8.2). Pearsall suggests that this can be considered an important achievement of state intervention in housing.

Table 8.2 Number of households lacking certain amenities, 1962-80 (in millions, and % of total households)

Year	No mains water	No WC	No bath or shower	No central heating	Total number of households
1962	3.146	8.666	10.355	11.753	14.565
	21.6	59.5	71.1	80.7	100
1968	1.450	7.124	8.275	10.261	15.763
	9.2	45.2	52.5	65.1	100
1975	0.496	4.649	5.288	8.322	17.745
	2.8	26.2	29.8	46.9	100
1978	0.242	3.895	4.268	7.400	18.640
	1.3	20.9	22.9	39.7	100
1988	0.062	1.407	1.532	5.154	20.700
	0.3	6.8	7.4	24.9	100

Sources: L'enquête nationale sur le logement de 1978; Annuaire statistique de la France 1978, 1988; Pearsall (1984: 23)

Around the mid-1960s these developments led the government to gradually reduce its role in housing, and to cut public housing expenditure. New sources and methods of financing housing construction were sought. Attempts were increasingly made to attract private sector investment; incentives were provided for households to save; and special high-interest accounts, earmarked for households saving to buy a house, could be opened. The mortgage market, too, was reorganized, and special financial institutions were set up. According to Boucher (1988: 301), efforts to encourage saving and the use of these savings for the purpose of housing construction were a great success and made an important contribution to the number of new dwellings constructed. As a result of these measures, the proportion of total housing construction finance provided by the private sector increased from 29% in 1962 to 58% in 1975. Further, partly on account of these measures, the level of housing construction increased in the first half of the 1970s, and it was the unsubsidized sector that grew most significantly (accounting for 14% of total new housing construction in 1965, 22% in 1970 and 42% in 1975). After 1960 the proportion of single-family housing in total new housing construction was of significance for the first time, growing from a virtually negligible percentage in the period before 1960 to 40% in 1970, 58% in 1977 and 67% in 1980.

Growth in the housing market owed much to the favourable economic situation at the time. When France experienced economic recession in the mid-1970s, however, the housing market was seriously affected. Interest rates rose, inflation, and particularly construction costs, increased, and the demand for new housing fell as real incomes declined (Boucher, 1988: 302).

In spite of the increase in the level of the housing stock, there remained a significant proportion whose quality was considered less than adequate. This related particularly to dwellings built before 1941 (40% of the total housing stock) and to specific areas like old industrial zones, the inner cities of large towns, and areas on the outskirts of the cities. In the early 1970s attention shifted from expanding the size of the housing stock to improving its quality and that of the residential environment (Marchal, 1989: 330).

Many pre-1970 urban developments were badly planned and often took no account of the available transport infrastructure. Social provisions and shopping facilities were often lacking, and employment opportunities close to new housing developments were often insufficient. These criticisms were particularly directed to the large-scale high-rise blocks built in the 1950s and '60s: the *grands ensembles*. Furthermore, there was considerable protest about the way in which old areas of cities were redeveloped (Les Halles and Montparnasse in Paris for instance). After redevelopment, the original populations were effectively excluded and virtually "deported" to unattractive housing developments on the outskirts of the cities.

Housing demand increasingly took the form of demand for single-family housing, and there was growing criticism of the emphasis on high-rise housing that had characterized earlier development. This development corresponds to the situation in the Netherlands at the beginning of the 1970s, when, partly as a

result of protests from occupants, the tendency to demolish gave way to a policy of renewal and renovation for the original residents of a district. In France local political pressure was largely responsible for the shift away from large-scale redevelopment projects to efforts to rehabilitate old urban areas. Because of this political pressure, Giscard d'Estaing's 1974 manifesto promised to pay specific attention to the existing housing stock and the natural environment in new development projects (Pearsall, 1984).

Like many other Western governments, the French government was forced to modify its housing policy as a result of economic recession in the mid-1970s; it was no longer exclusively oriented towards expanding the housing stock, but became increasingly concerned with the state of the existing stock and reforming the system of housing finance. This led to much discussion and to the establishment of a number of official commissions (Marchal, 1989: 33). In the 1975 Nora and Eveno Report the government presented the first ever official survey of the problems affecting the existing stock and of the possible methods that could be used to solve these problems. The report concluded that, on the basis of economic and social considerations, the government ought to encourage improvement in the existing housing stock, and that the role of the government in housing provision should be limited to providing assistance for low-income groups; the free market, the report claimed, would be able to meet most housing needs. The report also indicated the importance of a general revision of housing policy and housing finance in order to ensure the success of the housing programme.

A general reassessment of both housing policy and the system of housing finance was also advocated in the Barre Report (Barre, 1975). The report stated that housing construction policy and financing were complicated, confusing and difficult to administer. Decision making was too centralized, inflexible and intensive, while government grants to the HLM institutions and the *Secteur Aidé* did not reach the weakest groups in the population. Moreover, according to the report, government expenditure on housing had had an inflationary effect, and it would be more efficient to give priority in housing construction and allocation to market forces. Both the Barre and the Nora reports were prepared by commissions set up by the government. In 1975 a third report was also published: the so-called *Livre Blanc*, compiled by the HLMs. On the basis of an almost identical analysis of the problems facing housing, this report came to completely different conclusions concerning housing policy. Though the report acknowledged that the free market should play a role, it concluded nonetheless that the government should continue to play the most important role in the provision of housing (Pearsall, 1984: 39).

The liberal government of Giscard d'Estaing did not implement the particular recommendations of the Nora Report, but it did adopt the general approach advocated by both the Barre and Nora reports. For the first time since the Second World War, government housing policy envisaged only a secondary role for the state, and that the provision of housing would be left as much as possible to the free market. In the Netherlands such a shift did not occur until the late-

1980s. The new policy of the French government was enshrined in the 1977 Housing Act. This act was based on the following principles (Pearsall, 1984: 40):

- that there should be greater reliance on market forces, and that housing costs should be increased by raising rents and by increasing the rate of mortgage interest;
- that government housing expenditure should be reduced, and assistance directed to those on low incomes and in the form of demand rather than supply subsidies;
- that owner-occupation should be promoted, in particular among households with modest incomes, and that the range of choice for those seeking housing should be increased;
- that the quality of the existing housing stock should be improved;
- that the system of housing finance should be simplified and the system of administration improved.

The act led to a major revision of the system of housing finance. The complicated method of granting loans, subsidies and specific subsidies to the HLM institutions for particular residential buildings was replaced by a simpler system, the *Prêts Locatifs Aidés (PLA)*, or subsidized loans for rented dwellings. These loans were also made available to other organizations building new housing, including the private sector. A condition of the loans was that they were used to finance the building of non-profit rented housing. Loans were also provided for housing improvements, and this meant an important extension in the scope of loans, an extension consistent with the government's aim of improving the quality of the housing stock. The loans were granted only after a contract was signed between the state and the borrower. Initially, the *préfet* of the *département* had wide-ranging powers concerning the level of housing quality and the design, and, more importantly, concerning the allocation of housing allocation and the level of rent. The *préfet* could thereby act to counter discrimination in housing allocation and, taking into account housing quality, to make rents consistent with the market value of the dwelling. This significantly limited the freedom of HLM institutions.

As a result of pressure from the HLM institutions, the government of President Mitterrand (elected in spring 1981) decided to modify the system and to restore a number of important powers to the HLMs. The *préfet* retained the right to increase HLM rents to more market-appropriate levels however.

These changes in housing policy were made possible as a result of the introduction of a new system of demand subsidies. This system was introduced largely to promote the growth of owner-occupied housing. In order to encourage owner-occupation among low-income groups, a new type of loan was introduced: the *Prêts à l'Accession à la Propriété (PAP)*. These are cheap loans for specific income groups and cover up to seventy per cent of the purchase price of a home. The loans are granted to the purchaser or to organizations like the HLM that build owner-occupied housing for these income groups.

More significant for the development of owner-occupation were the loans to

middle-income groups. These loans, the *Prêts Conventionnés* (PC), are available to all income groups and also to landlords who want to rent out the dwellings. About 80% of the purchase cost can be financed in this way (for a more detailed description of these schemes see Papa, 1991).

The most important change as part of the switch from a system of supply subsidies to one of demand subsidies was the introduction of the *Aide Personnalisée au Logement* (APL). This scheme would, in the long run, replace the existing *Allocation Logement* (AL) (see section 8.4.1). The government tried, by means of this new subsidy scheme, to increase rents to reflect market levels. The principle behind this new legislation was that public housing assistance ought to be directed almost entirely to individual households. Its purpose was to increase household expenditure on housing and to improve the quality of the housing stock. The result of this policy was that the proportion of those benefiting from APL increased sharply (Boucher, 1988: 302), especially owner-occupiers (in 1983 62% of those in receipt of APL owned their own home). Expenditure on APL grew explosively, by around 25% per year. By the mid-1980s this situation had become almost unsustainable.

Finally, specific improvement subsidies were introduced. The most important were PAP and PLA loans, which, under certain conditions, also became available for housing improvements.

8.4.3 The period 1981-90: the restructuring of the private rented sector

In May 1981 a Socialist-Communist government came to power under the prime ministership of Mauroy. This occurred a few months after Mitterrand had been elected President of France (the first time under the Fifth Republic that a Socialist had been elected President). This change of power led to a break with many of the policies of the past. Within a year, a large number of reforms had been carried out, most notably decentralization, and the nationalization of large enterprises and financial institutions. In spite of these radical changes, the government largely continued the housing policy pursued by the previous liberal administration, and, except during the period 1981-82, it too cut back public spending on housing (Pearsall, 1984: 43; van Giessen, 1983: 4; van Giessen, 1985: 9).

The underlying liberal principles of the 1977 Housing Act, to cut public expenditure and to reduce the level of new social housing being constructed, were no longer adhered to however. Despite this, however, most of the objectives of the act continued to be pursued: bringing rents into line with market rents, switching from supply subsidies to demand subsidies, increasing the proportion of owner-occupiers (in particular among lower-income groups), and improving the quality of the existing housing stock. Some of the powers previously taken away from HLM institutions were restored.

Van Giessen (1983: 4) gives two explanations for why housing policy under Mauroy was little altered. He suggests that housing has seldom been regarded as a political issue in France. Secondly, even among the *élite*, housing was not a subject of political discussion. This situation clearly changed at the end of the

1980s. Housing is currently considered to be one of the two or three most important socio-economic problems facing the country (unemployment being another) (United Nations, 1984: 64; United Nations, 1988; Delebarre et al., 1990; von Hermann 1990; private communication, Ministry of Housing). Promoting construction is recognized as an important instrument in economic policy; it creates jobs without the need for too many imports (United Nations, 1984: 64). Many of the other measures taken under Mitterrand's government at the beginning of the 1980s to promote the economy had relied on costly imports and thereby largely benefited enterprises abroad.

The fact that housing policy remained little changed is evident from the Rent Act introduced in June 1982 by Quilliot, the Minister for Housing. This act was especially important for the private rented sector. It aimed to protect tenants of dwellings built before 1948. According to Pearsall (1984: 44), an important objective of the act was to ensure that the rent increases considered necessary were implemented fairly and took into account the level of real incomes. The rent controls so often decreed by the authorities were ended. Such measures appeared to deter investment by the private sector. The main emphasis then was laid on consultation and co-operation between landlord and tenant, whereby, if necessary, the state can intervene to fix rent levels.

The 1982 Rent Act recognized housing as a fundamental right; all social classes should be able to choose either to rent or buy a home. Such a right presupposes a balance in the individual and collective relationship between landlord and tenant. In this respect the act had the following objectives (Vandenberghe, 1982: 24):

- ensuring a clear relationship between landlord and tenant led to a written rent agreement being required, with a more precise description of the responsibilities of the two parties and clearer information prior to the signing of the agreement;
- a degree of tenant protection resulted from regulations relating to the duration of the tenancy and the length of any notice to quit, the introduction of a right to renew the tenancy, and the right to buy if the landlord wanted to sell the dwelling;
- a controlled increase in rents;
- to enable tenant involvement by introducing collective tenancy agreements.

With regard to the duration of the tenancy agreement, the Rent Act stipulated that it was to be for a minimum of six years and that it could be renewed for periods of three years thereafter. A distinction was made between natural persons and legal entities (like the HLM institutions). This distinction enabled individuals greater flexibility in deciding to use their property themselves and/or to sell. The private landlord can choose between a tenancy agreement of at least six years (with the possibility of serving notice on the tenant) and one of three years (under which the landlord cannot terminate the tenancy before the three-year period).

After the tenancy agreement has expired (after six or three years), it can be



renewed for three or more years. Only the landlord is obliged to justify a refusal to renew the tenancy, and only three reasons are acceptable under the act: that the landlord intends to live there, that the tenant has failed to comply with the terms of the tenancy agreement, or that the landlord intends to sell the dwelling. In the latter case the tenant has the right to buy the dwelling. A national commission was also appointed to determine rent levels; tenants, landlords and the municipalities are represented on the commission.

The act prompted vigorous opposition, especially on the part of organizations representing the interests of landlords and the property sector (Vandenberghe, 1982: 34). Their main objections were, briefly, that the act would reduce returns from investment in property, and would therefore lead to less investment in property. The crisis already facing housing construction and the construction industry would be exacerbated. Property organizations also claimed that the Rent Act would lead to the sort of housing shortages experienced during the inter-war years. This initial criticism was rapidly muted when, a year later, it became clear the extent of the permitted rent increases.

The act, in combination with the tax system, did result in the almost complete withdrawal of private investors from the housing market however. During the period of rapid expansion in the housing stock between 1972 and 1975, they had accounted for around 10% of total investment (van Giessen, 1983: 6). Von Hermann (1985: 409) notes though that the dwellings financed in the past by private capital were usually sold to wealthy individuals immediately after completion. They lived off the rents from these dwellings. These *Rachman*-like landlords almost completely disappeared, however, in the course of the 1970s. Few private investors are now willing to invest in housing. The gross return in 1985 was at most 8%, which meant a net return of little more than 3% to 4%. The grants available for new housing construction amounted to 15% to 20% during the 1980s. These were only available, however, to those intending to live in the dwellings themselves (von Hermann, 1985: 409).

Tenants' associations considered the Rent Act to be a major step in ensuring a better equilibrium between the interests of tenants and landlords; it was the first time, for instance, that the government recognized the associations' claim to represent tenants (Marchal, 1989: 34). The tenants' associations regretted the fact that the act was not part of an overall housing policy, however, and that the level of the basic rent was not fixed. Their other criticisms concerned the fact that not all tenancy agreements were for at least six years, and that a simple declaration of intent to sell was sufficient to terminate an agreement (Vandenberghe, 1982: 35).

The policy pursued during the 1980s, combined with the economic crisis of those years, led to a steady decline in the level of new housing construction (Table 8.3). Table 8.3 is not entirely consistent, nor accurate, but it nevertheless provides a clear picture of the trend in new house building during the last decade. The number of building permits issued in 1980 was 500,000; by 1986 it was as low as 356,000. The number of new dwellings built by HLM institutions remained about the same, but, except in the owner-occupied sector, private

sector investment declined sharply. This development resulted in a growing shortage of housing, even in rural areas. The shortage was greatest, however, in the large cities, especially in the municipalities on the outskirts of the cities, where the first large HLM complexes were being demolished.

That there was a crisis in housing construction was generally accepted by the mid-1980s. Indeed, in the first half of the 1980s the crisis in the construction industry was much more serious than in other sectors of the economy (von Hermann, 1985: 409). The number of jobs in the construction industry fell by 20% during the period 1978-84. For a country in which the construction industry is one of the most important sectors of the economy, with a turnover of FF 300 billion in 1984 (twice that of the car industry and one and a half times that of agriculture), the implications of this were enormous. Despite the fact that there

Table 8.3 New housing construction, by sector, 1980-89 ('000s)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Housing authorized	500	489	429	371	343	350	356	388	421	394
of which										
subsidized rented	55	64	64	60	45	53	53	48	48	37
subsidized owned	115	112	112	102	108	84	89	72	62	46
free sector	330	312	249	205	190	206	209	261	305	308
of which										
private	316	285	259	238	223	215	206	212	213	192
public	184	204	165	133	120	134	150	176	208	203
Housing starts	400	400	343	332	295	295	295	310	327	339
of which										
subsidized rented	60	53	55	52	50	65	60	54	54	50
subsidized owned	120	126	127	115	113	93	90	75	60	48
free sector	220	229	173	170	132	137	145	178	213	241
of which										
private	266	251	220	219	202	192	179	188	183	174
public	134	149	123	114	93	103	116	122	144	164
Housing completions	378	391	363	333	271	255	237	254	291	270
of which										
subsidized rented	55	53	71	70	78	n/a	n/a	n/a	n/a	n/a
subsidized owned	119	108	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
free sector	204	230	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
of which										
private	250	250	228	208	182	172	161	161	181	155
public	128	141	135	105	89	83	76	93	110	115

Sources: Marchal (1989: 35); Directorate of Economic and International Affairs

was a fall in the number of new houses being built, housing demand increased significantly during the 1980s. In the large cities, especially, there was considerable demand for rented housing. Yet, surprisingly, the HLM institutions announced that in the same period some 80,000 social rented dwellings were empty. Each empty dwelling cost the HLMs FF 15,000 per year. Further, 7% of HLM tenants were unable to pay their rent. The combination of vacancies and unpaid rents led to financial difficulties for as many as 35% to 40% of HLM institutions Boucher (1988: 316).

In order to solve their financial problems, the HLM institutions tried to reduce management costs, while some sold land and transferred part of their housing stock to the occupants. The right to buy had existed as early as 1976, but for various reasons it was not widely exercised. This changed when in 1985 the rules were changed and the right to buy extended to include single-family homes built before 1965 and to apartment dwellings built before 1975. The terms of sale are favourable for tenants; tenants may, for example, sell the dwelling after only two years.

In 1984 Cornaire, a member of the national HLM umbrella organization, published an account of the financial problems facing HLM institutions. He noted, firstly, the mismatch between the demand for and supply of social rented housing. In the past, large apartment dwellings had been built for large families. By the 1980s, however, households were smaller and demand was chiefly for small dwellings. Large dwellings were often too expensive for small households. Secondly, Cornaire claimed, HLM institutions had often ignored the local pattern of housing demand when developing new projects. Housing was built where land was cheapest, and not always where housing demand was greatest. Moreover, insufficient account was taken of the need to provide adequate transport infrastructure. The economic crisis of the period also contributed to the fact that housing demand unexpectedly declined in certain locations where local firms were forced to lay off workers or close completely.

Because of the problems facing the housing market, the government decided to implement a series of measures intended to stimulate housing construction (von Hermann, 1985: 409). The mortgage rate was reduced to 10.17%, and, for the first year of a mortgage, to 9.87%. Owners were permitted to deduct 25% of the cost of major large-scale improvements from their taxable income. Further, those purchasing property to let to tenants could write off 5% of the capital invested, and under certain conditions private sector rents were freed from rent controls. The government also provided grants for the modernization of 20,000 HLM dwellings, and in 1985 an additional 10,000 HLM dwellings were built (von Hermann, 1985: 409).

To reduce the problem of vacancies and, more generally, to improve the residential environment and the quality of housing in the post-war high-rise regions, a special commission was established: the Commission Nationale pour le Développement Social des Quartiers. This commission endeavours to find new integrated solutions and to address the social problems that underlie the problems in housing. Additional finance was sought, and associations with

representatives of landlords, tenants, social workers, the police, educational institutions and government were set up. In 1988 it was renamed the Délégation Interministérielle à la Ville (DIV). In 1987 a number of regional commissions were also established (see section 8.2, and Boucher, 1988: 319).

The deregulation of the housing market, begun cautiously towards the end of the Socialist government's term of office, was continued and accelerated by Chirac's liberal administration when it came to power in 1986. The crisis in the housing market led to further discussions in Parliament when the new government's proposed housing legislation was debated. Further steps were taken to deregulate the market: rent controls were relaxed, housing construction finance deregulated, and the sale of HLM dwellings promoted.

Some authors have seen a parallel here with the situation in 1948, when the government's policy was almost entirely focused on increasing the number of dwellings being built, as a result of which, later on, problems arose in the running of these poor-quality and hastily-constructed housing complexes.

Deregulation and support for the construction industry were accompanied by considerable public expenditure to increase the number of new dwellings being built. In 1987, for instance, FF 124 billion was spent in the form of direct, fiscal and social expenditure to increase the level of housing construction. The corresponding figure for 1986 had been FF 117 billion (Marchal, 1989: 34). Measures were also taken to stimulate the private rented sector, for which only 5000 dwellings had been built in 1984. The financial conditions affecting the private rented sector were eased (through, among other things, revisions to the PLA loans), and tax relief was granted to all those who bought a dwelling and rented it out for more than six years. Furthermore, in the case of newly-built dwellings 35% of income from rent was tax free for a period of ten years (it had previously been 15%) (Boucher, 1988: 322).

The new legislation of 1986 also restored some of the rights previously enjoyed by landlords, and the 1982 Rent Act was suspended. A limited form of security of tenure was provided, however, in order to protect tenants at a time of major shortages in rented housing. Thus landlords were obliged to offer their tenants a contract for three years. After three years the landlord could serve notice; landlords were not required to give reasons why notice was being served. The tenant had six months in which to find alternative accommodation however. When the lease was renewed, the rent was increased significantly. Landlords were thus able to revise rents after a lease had expired (usually after three or six years). The tenant could appeal to a national arbitration board. This board had only an advisory function however. For tenancy agreements concluded before 1986, a transition measure was introduced. It is only in 1995 that all rented housing will be entirely subject to the new Rent Act (Boucher, 1988: 323).

The new rent legislation led to substantial changes in the housing market. In particular, the weaker position of tenants in the large cities led to serious rent problems for them, and also for many middle and higher-income groups. Von Hermann (1988: 213) claimed, for example, that proposed rent increases of

200% were not uncommon, and that the arbitration board merely succeeded in holding down increases to 100%. It should be added that many rented dwellings, especially in Paris and other large cities, were sublet privately and, consequently, these tenants were not, in fact, protected under the new legislation. In this way the new act led to enormous rent increases (in Paris between 51% and 180%, in Marseille 110%, in Strasbourg 85%, and in Nice 130%). These increases had major repercussions for the economy, of course, and were certainly counterproductive in the fight against inflation (von Hermann, 1988: 213). In 1989 the Rent Act was amended, and since then rents have been controlled by the regions.

In order to improve the housing situation of low-income groups, in May 1990 Parliament approved a bill relating to housing vacancies. It was argued that low-income groups were unable to afford new housing, and that they were therefore forced to rely on existing cheap rented housing. This new legislation enabled HLM institutions to purchase private housing; they were under no obligation to undertake major renovations, however, and it was possible therefore to rent these dwellings out at a modest price. Moreover, this legislation makes it possible to manage private dwellings for a long period. For this purpose the 1990 budget made provision for 10,000 dwellings. The legislation referred to joint venture companies (SEM, see section 8.3.3) as possible agents for commissioning limited housing improvement schemes (van der Laar, 1990).

8.5 Housing policy in the 1990s

In the following review of the problems and challenges facing housing in France during the 1990s, we have relied much on the important report published by the Conseil Économique et Social (CES) in May 1989 and titled *Le bilan et les perspectives du logement en France* (Petrequin, 1989). This report presents an analysis of the development of housing policy in France and of the problems currently facing housing. The report makes a number of significant observations (Petrequin, 1989: 3-5):

- The growth in the number of homes (from 13.3 million dwellings in 1946 to 23.7 million in 1982) is sufficient to meet present needs.
- Although housing policy was radically reformed in 1977 (see section 8.4.2) and aimed to increase choice for all social groups in society and to improve housing quality, access to the housing market for weaker groups was reduced by the economic events of the 1980s. There are clearly households excluded from the fruits of economic progress and being increasingly marginalized. It has become difficult for this group to obtain qualitatively acceptable housing.
- Although the fall in the rate of inflation has had a favourable impact on the French economy, it has created problems for those households with mortgages, especially those who have purchased recently and those who own social rented housing.
- With the increase over the last ten years in the proportion of new housing being built for owner-occupation, the significance of the rented sector has

decreased and the level of housing choice for weaker groups has declined.

- In 1988 total direct and indirect public expenditure on housing amounted to FF 117.6 billion. Direct housing subsidies amounted to FF 45.5 billion; social security housing-related costs were FF 41.4 billion; tax rebates accounted for a further FF 17.9 billion, while FF 12.5 billion was paid out through savings schemes (including the construction savings scheme).

On the basis of these facts, the CES proposed four basic principles that should govern housing policy during the 1990s (Petrequin, 1989: 5-6): it should aim to meet current housing demand, to enhance the quality of life, to ensure that in the medium and long term housing demand can be met, and to counter social segregation.

In order to meet current housing demand, the CES proposed the introduction of a new housing construction programme of 300,000 dwellings per year for a period of four years. This would suffice to alleviate the housing shortage, estimated in 1989 to be 350,000 dwellings. It is necessary to improve the quality of the existing housing stock, but this in itself is not enough to meet the demand for new housing. Further, the CES proposed that housing construction better reflect demand for housing. At the moment this is not the case: more than 50% of new housing is aimed at high-income groups constituting less than 40% of the population.

As important in alleviating the housing shortage was the need to ensure housing quality. The quality of housing and the residential environment were considered major influences on the degree to which individuals were integrated into society. The implication of this, particularly at the local level, is that sufficient consideration ought to be given to the development of social rented housing.

In order to guarantee future housing supply, a long-term plan has to be developed concerning the provision of building sites, the level and quality of future housing construction, and in particular the desired size of dwellings. It is considered inevitable that part of the older housing stock will have to be demolished or adapted to the needs of future occupants. Finally, it will be necessary to improve the possibility for long-distance moves for those households wanting to migrate after European unification.

The fourth principle of housing policy, the need to counter social segregation, is a broad one, and includes financial, social and ethnic segregation, as well as segregation on the basis of nationality.

The housing policy advocated for the 1990s by the government is a response to the principles outlined above (Delebarre et al., 1990; von Hermann, 1990). Unlike in the Netherlands, for instance, where housing has become less of a political priority in recent years, housing continues to be regarded as one of the major problems facing the country. It is acknowledged that the housing market has become unaccessible for growing numbers of low-income groups. The government recently admitted that in Paris alone there are 20,000 to 25,000 homeless people. On the other hand, thousands of dwellings in Paris are vacant.

Those without fixed incomes are unable to rent them however (see section 8.3.2 and von Hermann, 1990: 66).

In order to ensure that demand and supply within the housing market are in equilibrium, the government introduced a number of measures in 1990, mainly relating to the provision of new social housing. Low-income households and those in receipt of social security benefits would in future receive a housing allowance enabling them to pay their rent. Income from renting out such housing would no longer be subject to tax. Where housing improvements are made, the costs of these would be borne by the state, on condition that these dwellings are subsequently let to low-income households for a period of ten years. Tenants who become unemployed were permitted to continue to occupy their rented dwelling. The HLM institutions were allowed to write off rent arrears. In order to finance these new measures, the government made FF 1 billion available.

The construction of new social housing is the central plank of the government's housing construction policy. Grants for social housing construction were increased in 1990 by FF 4.9 billion (an increase of 17%) and rent subsidy (APL) by 7.6%. Further, the government has proposed to finance the construction of another 55,000 social rented dwellings.

The CES recommended that during the next four years around 300,000 new dwellings would have to be built each year. This recommendation was accepted by the government, which has proposed an even more ambitious programme for the construction of up to 330,000 dwellings annually until 1995. Demographic projections suggest that after 1995 housing demand will slow down. Until 1995, however, an extra 220,000 new households are expected annually, and 60,000 old dwellings are to be replaced. Given an estimated housing shortage of 350,000 dwellings and an annual rate of construction of 330,000, the housing shortage will only be alleviated gradually.

Broad discussions continue to take place concerning the most desirable size for housing, whether one ought to build smaller dwellings because of the decline in household size, or whether one has to address recent trends, which suggest that households want larger homes.

The government's policy was outlined in the 1990 housing budget. The following changes were introduced in the budget (Delebarre et al., 1990):

- The budget of the Ministry of Equipment and Housing was increased by 7.5% between 1989 and 1990. The ministry's budget of FF 123.1 billion is second only in size to the Ministry of Education's, and it is also the most important public investment programme.
- A budget of FF 33 billion was allocated for new housing construction; this represents an increase of 17% over 1989, compared with a decline between 1988 and 1989 of 4%.
- The housing improvement programme was expanded from 160,000 dwellings in 1989 to 200,000 dwellings in 1990. Expenditure on PAPs, which had been designed to encourage owner-occupation among low-income groups, was unchanged, and the number of subsidized loans for rented housing (PLA)

increased by 10,000 to 65,000.

- FF 20.6 billion was reserved for Allocation Logement (AL) grants, an increase of 7.6%
- Public assistance continued to consist largely of supply subsidies (this has been the case since 1982). APLs were extended to new groups, including more than 10,000 young people. In 1990 a total of 250,000 households were in receipt of an APL.



9.1 Administrative and legal systems

Sweden is a parliamentary democracy with a monarch as head of state. Legislative power and the control of the executive are vested in the Riksdag, the Parliament, which has 349 members. Between 1932 and 1976 Sweden was governed by the Social Democrats, either alone or as the principal partner in a coalition. In 1976 the Social Democratic Labour Party lost power to a group of "citizens' parties" (moderate Conservatives, Liberals, and the Centre Party). They held power until 1982, when the Social Democrats, with the support of the Communists, were once again returned to power; the Social Democrats managed to hold on to power in the elections of 1985 and 1988 (Malvoz, 1989: 240). The fact that the Social Democratic Labour Party has been in government for almost the entire period since 1932 has led to remarkable stability in many areas of policy, including housing. The party had, of course, to take account of the policies of its coalition partners. Only during the periods 1941-51 and 1967-73 did the Social Democrats have a majority of the seats in Parliament (Appelbaum, 1985: 224). Heady (1978: 59) has argued that the power of the Social Democratic Labour Party effectively depends on winning the support of the five per cent of the electorate who are floating voters; careful consideration has therefore to be given to public opinion, other political parties and special interest groups. Compromise is a political necessity in Sweden.

The distribution of functions in Sweden is based on a number of clear principles unique in Western Europe. The most important are that no decisions may be taken at a level higher than is required, that all citizens have the right to a guaranteed degree of security and well-being, and that matters requiring specific and precise knowledge must be taken at the appropriate local level. Given the general principle of decentralization, the role of the state is limited to traditional national-level activities (law and order, defence, foreign affairs, etc.) and those areas that require a national approach to problems and considerable financial investment (roads, railways, higher education, employment policy and social security). Other activities are the responsibility of more local administration (Malvoz, 1989: 31). In the case of housing, central government does play an

important role. Most of the costs of housing are provided by the state in the form of indirect tax subsidies and subsidies to cover the difference between market rates of interest and the nominal rates of interest charged for mortgages.

The country is divided into twenty-four administrative units (*läns*). The activities for which the state is responsible are mainly carried out at the level of the *län* by the *länsstyrelse*, which is presided over by a governor appointed by the government for a period of six years and which has fourteen members elected by the municipal councils. This body, which in principle has no official budget or political functions, is responsible for regional planning and the supervision and co-ordination of local authorities. According to Malvoz (1989: 27) the *länsstyrelse* must, in general, ensure the promotion of national interests, public order and security. In addition to the *länsstyrelse*, which has a general function within the *läns*, there are also various specialized administrative bodies directly related to certain national administrative organizations; the two most important are in the fields of housing (including the monitoring of co-operatives) and education.

The municipality (*kommun*) is in principle in charge of all matters of local importance. In 1990 there were 284 municipalities with an average of 30,000 inhabitants (though the deviation was substantial) and an average surface area of 1440 sq km. The number of municipalities has decreased since the Second World War.

The municipalities in Sweden have more functions than those in most other countries in Western Europe. Malvoz (1989: 31) notes in this respect that local authorities have responsibility for a number of functions that in most other countries are the responsibility of the state or the private sector (granting subsidies to political parties or providing international development aid for example). This is also evident from the fact that in 1989 two-thirds of total public expenditure was spent by local authorities (in 1950 the corresponding figure was only fifty per cent). This implies that local taxes on household income are around thirty per cent (in addition to the ten per cent levied by the state). This relatively high burden of taxation, which until a few years ago had been increasing steadily, has led recently to cuts in public expenditure, more charges for services, and an increasing transfer of activities to public enterprises. Above all, in 1982, 1989 and 1990 reforms were made to the tax system (see section 9.5).

The municipalities are especially involved in the provision of social assistance and education. These activities result from the obligation imposed on each municipality to offer assistance to all those in need living (temporarily or otherwise) in the municipality. Municipalities also grant housing subsidies to various groups, such as young families on low incomes, large families, the elderly and those under twenty-nine living alone (see Nord, 1990). The state pays fifty per cent of the costs of these subsidies.

In the field of environmental planning and urban development the municipalities draw up general and specific plans, they grant building permits and are responsible for drawing up and enforcing technical specifications which buildings

must meet. Housing policy is often determined by municipal associations or in co-operation with the private or the co-operative sectors. State loans for subsidized housing construction and improvement are distributed by the municipalities. They also have the right to expropriate and sell property in order to implement their housing and planning policies.

Sweden has a series of municipal committees (including, for example, a committee that is ultimately responsible for the granting of building permits). These committees are independent of the local authority and their functions are set out in legislation; their budgets cannot be limited by the municipal council.

By law, municipalities are obliged to draw up a housing plan. In such a plan information is provided on new building activities and improvement plans. Municipal plans are also drawn up for schools, hospitals and other social sectors. Increasingly, greater account is being taken of the objectives of environmental planning when these plans are drawn up (Anas et al., 1987: 19).

One problem resulting from municipal autonomy is that many small municipalities have attracted the wealthy away from the cities by constructing owner-occupied housing. With tax revenues falling, this constitutes an important problem for large cities. Regional co-operative organizations have been established to find a solution to this.

In Sweden, too, there has been progressive decentralization; this has extended, unlike in the Netherlands, to include building regulations. There is also a growing tendency to have housing benefit administered by the municipalities.

9.2 Environmental factors and environmental planning

Sweden is the fifth largest country in Western Europe, with a surface area of almost 450,000 sq km. The 96,000 lakes cover 9% of its territory; 50% of the country is woodland and a further 10% is agricultural land. The length of the coastline is over 7600 km. Along the coast there are tens of thousands of small islands (including no less than 24,000 in the Stockholm archipelago alone). In 1989 Sweden had a population of 8.4 million. The inhabitants are mainly concentrated in the southern part of the country. In 1989 almost 80% of Swedes lived in municipalities with more than 20,000 inhabitants, and 83% lived in urban areas. Because of the low birth rate and high level of life expectation, the size of the population is constant though ageing (in Stockholm 21.5% of inhabitants are older than 65; see Figure 2.1 and Figure 2.2).

In spite of the low population density and the large expanse of woodland, the housing stock in Sweden is neither predominantly scattered nor does it consist of single-family housing constructed of wood. On the contrary, many urban areas are characterized by high-density construction with a high degree of multi-family housing. Anas et al. (1987: 15) have suggested a number of reasons for this: transport, the regulation of the building process, the reduction of energy costs by the government, and attempts to make welfare accessible to as many inhabitants as possible have resulted in high concentrations of population.

In 1947 the Housing Act was introduced; this also established a series of environmental planning procedures and regulations. Before the Housing Act came into force, planning and construction were left to market forces and there were no restrictions on urban development. This led to a very scattered pattern of urban development. This situation changed with the introduction of the Housing Act. The municipalities were given a "planning monopoly", which effectively meant that the municipality could determine, on the basis of the Housing Act, when, the size and the way in which urban development took place. After 1947 the municipality could use its planning powers to regulate land use. The draft development plans drawn up by the municipalities gave a broad indication of proposed land use and these plans could subsequently form the basis of detailed legally-binding development plans. Central government still has the power to refer local plans to regional commissions responsible to central government for approval however.

In 1964 the planning system was modified after an investigation into the importance of land ownership as an instrument in housing construction. The municipal ownership of land was used to promote the construction of social housing. Land that had been purchased and developed was no longer sold but leased for long periods. In large urban areas such as Stockholm, in particular, the principle of the long lease is of considerable significance. In 1968 measures were taken to restrict land speculation; the municipality was given the option to buy in cases where property was sold, and profits made from sales of property could be taxed.

In 1972 the powers granted to municipalities to expropriate land were modified. Prior to 1972 the municipality could only expropriate land if that land had a firmly established function in urban development plans. Since 1972, however, it has also been possible to compulsorily purchase land for "possible future urban developments". This change effectively means that landowners have almost completely lost the right to dispose of their land in cases involving a change in land use. In the 1960s the importance attached to the municipal ownership of the land led to a considerable increase in the level of land purchases by municipalities (Boverket, 1989: 7).

Prior to 1987, Swedish planning legislation stipulated that the municipality draw up a plan for all types of building activity. This enables municipalities not only to determine where building will take place, but also when. The use of land can be regulated by comprehensive plans (regional plans, master plans and structure plans) and detailed forms of planning (land-use plans and building plans). Both types of plan are often drawn up simultaneously. Regional plans are drawn up for regions in which a degree of planning co-ordination is necessary, as for instance in those cases involving interregional developments, including, for example, road and transport infrastructure. Regional plans cover a period of thirty years; they are not legally binding.

The municipal master plan can also be considered comprehensive in scope. It serves as a basis for more detailed development plans within the municipality. The municipal council is obliged to draw up a master plan. In the course of

time, three types of master plan have emerged: multifunctional plans covering the entire municipality or urban area, plans relating to specific functions, and plans relating to specific districts within the municipality. The plan is sometimes approved by central government, but this is not necessary. Master plans are drawn up on the basis of demographic projections and other studies of future developments. The master plan in turn forms the basis of the municipal structure plan. This outlines the directives and restrictions relating to spatial development in the middle to long term (Anas et al., 1987: 17).

For all urban development plans in the municipalities a detailed plan is also required. This plan consists of a schematic map outlining, among other things, land-use regulations. The plan indicates where and what type of development is permitted. After approval by the municipal council, it has to be ratified by central government. There are two forms of detailed development plan: the town plan and the building plan. The town plan relates to urban areas and details the functions of buildings, streets and public spaces. The regulations contained in town plans can be extremely detailed. Thus the height, the size and other characteristics of buildings can be regulated. On the basis of an approved plan, the municipality can acquire land for urban development. Building plans are similar in form to town plans and are drawn up for non-urban areas. The building plan is simpler in scope and its legal powers less extensive. Private landowners, too, can ask the municipality to draw up a building plan. Developments that do not conform to the town plan or building plan are illegal. The compulsory purchase of land by the municipality can only be done as a last resort however (Anas et al., 1987: 17).

The most recent building and planning legislation dates from 1987 and was based on the planning methods described above. Legislation was also introduced for the protection and management of areas of natural beauty. This new legislation left the municipalities with even greater independence than in the past. The requirement that plans be approved by a regional commission appointed by central government was abolished. This commission can now only intervene when municipal plans contravene specific national interests, when regional interests are not taken into account, or when plans pose a danger to the health or safety of the population. These changes are consistent with the tendency towards greater municipal autonomy described in section 9.1 and, in particular, with decentralization. The extent of municipal autonomy in the field of planning is probably unique in Europe (Boverket, 1989: 7).

Another important change in the planning system involved its simplification. As from 1 July 1990 the municipalities were obliged to draw up a comprehensive structure plan. These structure plans were to contain detailed planning directives. Subsequent plans were to be based on these detailed plans or on land-use plans (which replaced town and building plans). The plan relates to a period of between five and fifteen years. If the municipality fails to issue building permits in a way consistent with this plan, or if the municipality revises its plan, then those proposing development projects may claim compensation. Municipalities are entitled to purchase land for building at the price that

prevailed ten years previously. This has effectively made land speculation, which had earlier been considered a major problem, almost impossible (Boverket, 1989: 7). Finally, measures were also taken to enhance the involvement of developers in the planning and building processes.

In summary, municipalities in Sweden evidently have wide-ranging powers to limit land speculation, to compulsorily purchase land, and to promote desirable and avoid undesirable planning and urban development. In this, the extent to which the local level influences urban planning, Sweden is unique among European countries.

9.3 The organization of the housing market

9.3.1 Housing tenure

Unlike in most other countries in Western Europe, there are four distinct sectors within the housing market in Sweden: the owner-occupied sector (43%), the social sector (the municipal housing associations, 21%), the co-operative rented sector (15%) and the private rented sector (21%) (1990 figures).

The distribution of the housing stock by tenure is radically different from that in other countries in Western Europe. Only a small proportion of rented and co-operative housing is single-family housing, whereas the owner-occupied sector consists almost exclusively of single-family housing. Multi-family housing may only be rented. Another remarkable difference between the rented and the owner-occupied sectors is that the average size of owner-occupied housing is much larger than rented housing (see Table 9.1). Seventy-five per cent of households in the owner-occupied sector have a house with four or more rooms; the corresponding percentages for the co-operative and the rented sectors are 15% and 14% respectively.

As in other Western-European countries, the rented sector is concentrated mainly in urban areas, whereas eighty per cent of houses in the thinly-populated regions are owner-occupied. The owner-occupied sector in Sweden is about the same size as that in the Netherlands, and in Sweden, too, the owner-occupied sector has grown steadily over the last few years, increasing from 35% in 1970 to 40% in 1980 and 43% in 1990 (see Table 2.20). During the period prior to 1970 there was a strong emphasis on expanding the rented sector. As early as 1945

Table 9.1 Housing size by sector, 1980 (%)

Type	Number of rooms					
	1	2	3	4	5	≥6
Owner-occupied	1	6	18	32	25	18
Co-operatives	16	36	34	12	3	-
Rented housing	22	34	30	10	3	1

Source: Lundqvist (1988a: 65)

the owner-occupied sector accounted for 38% of the housing stock. In the 1970s there was, as in the Netherlands, growing demand for owner-occupied housing, and the number of new houses constructed increased. After 1979 this abruptly stopped. House prices fell or stabilized and the number of new homes constructed declined by one-third during the period 1979-82 (from 39,000 to 27,000). It is expected that the owner-occupied sector in Sweden will grow only slightly in the near future (see section 9.5).

Subsidies for new construction in the owner-occupied sector take the form, as in the FRG, of low-interest loans granted by the government and mortgage subsidies (loans and mortgages finance 95% of the cost of a house). In the case of new housing, it is necessary to obtain a mortgage to cover 70% of the purchase price and then a state loan can be obtained to cover a further 25%. The remaining 5% has to be provided from savings or borrowed at market rates of interest. After purchase, home buyers are eligible for interest subsidies that finance the difference between 4.9% and the real rate of mortgage interest. Each year the effective rate of interest paid by the purchaser is raised by 0.5% until that rate is equivalent to the market rate of interest. After this, the right to a subsidy ceases, irrespective of whether market rates increase in subsequent years. This system means that mortgage subsidies usually last only thirteen to fifteen years. In addition to providing subsidies for new housing and for housing improvements, between 1987 and 1990 a grant was available to enable households with children to buy an existing home. It is not clear whether this scheme will continue (see Papa, 1991); in 1991 the government proposed to abolish it, and it is likely that Parliament will accept their proposal.

There are various methods of financing the purchase of existing housing. In general, the purchaser takes over an existing mortgage, and, if necessary, a supplementary mortgage is taken out to cover the difference between this and the purchase price. Whether one is able to buy a home is mainly determined by whether one can obtain a bank loan. Particularly if one is proposing to buy existing housing, the bank requires mortgagees to be credit worthy and to have sufficient income, job security and savings (Lundqvist, 1988a: 74).

The private rented sector is, along with the owner-occupied sector, one of the oldest forms of housing tenure in Sweden. Until 1945 most multi-family housing in Sweden was private rented housing. This changed after 1945 as the government embarked on an extensive social housing programme. During the 1960s and 1970s approximately 20% of the increase in the total housing stock was private rented housing; the corresponding figure for 1980 was around 10%. In 1990 about one-third of multi-family housing was private rented sector housing and the remainder was social rented housing. Housing in the private rented sector tends to be older, situated in small blocks, and smaller than housing in the social rented sector (60% of private rented housing consists of two- and three-room dwellings). Seventy per cent of those owning private rented housing only have investments in housing; they own, however, only 26% of the private rented housing stock. Around one-third of the stock is owned by 1% of landlords. As in several other countries in Western Europe, there are many rack-

renters among private sector landlords. In contrast with social rented housing, private rented housing can be bought by sitting tenants. Around 4000 to 5000 private rented dwellings are transferred in this way each year. Increasingly in recent years, private co-operatives have been established by former sitting tenants (Lundqvist, 1988a: 104).

In 1942 a rent act was introduced. This act required rents to be based on the original costs of construction. As a consequence, rents were almost frozen. Since 1978 private sector rents have been coupled to rents in the social housing sector. We shall discuss this in detail in section 9.3.3.

To finance new construction, private landlords may also be eligible for interest subsidies. Unlike in the case of social housing, however, these subsidies relate only to 92% rather than 100% of construction costs, while the annual reduction in the rate of interest subsidies is the same in both sectors (0.25%).

The government has little influence on the allocation of housing within the private rented sector, in spite of the fact that municipalities have legal powers to nominate tenants in specific regions.

9.3.2 The co-operative sector

Co-operatives in Sweden control a substantial part of the housing stock (15%). The co-operative sector really only began to expand after the First World War, when it was increasingly felt by the tenants' association that tenants themselves ought to be involved in the construction and operation of rented housing. The National Association of Tenants, Savings and Building Societies (HSB) was established in 1923. The associations affiliated to the HSB proposed to put rented housing at their members' disposal for an indefinite period. To avoid speculation, co-operative housing legislation was introduced in 1930. In 1940 the trade unions founded a second national co-operative housing association: the Riksborgen.

In 1980 some 9000 co-operatives were active in Sweden, with some 530,000 apartment dwellings, distributed over 3000 HSB (375,000 dwellings) and 1000 Riksborgen. In contrast with the private rented sector, there was an increase in the number of new houses built in the co-operative sector from 12% of total housing construction in 1975 to 31% in 1980 (Lundqvist, 1988a: 82).

The most recent co-operative legislation dates back to 1972. The co-operatives are controlled by regional authorities responsible to central government (see section 9.1). These authorities monitor the financial management of the co-operatives. As soon as a new construction project in the co-operative sector is completed, a co-operative association is established for that project. The members of the association are the collective owners of the project. Co-operative tenants pay a rent based on the current costs of maintenance and historic expenditure. The latter is equivalent to 1% of the value of the dwelling. Members are entitled to rent a dwelling for an indefinite period of time and they can make changes to the dwelling and its amenities and carry out maintenance work if these are consistent with the interests of the whole co-operative. Some maintenance costs, including the cost of electricity, heating and water for

example, are standard for all co-operatives. The management of the co-operative, which is elected by the members, decides on the level of services to be offered by the co-operative. In this way the members of the co-operative have a degree of indirect influence. The costs of the co-operative (which include general maintenance and management costs) are required to be paid monthly by members. Besides the payments made to the co-operative, there is another cost, that of acquiring the dwelling. In the case of a new project, the amount tenants have to pay is based on the construction costs of the project (including interest subsidies). The co-operative rented dwellings can then be sold by members on the free market. Any profit made goes to the members themselves, though this is liable to capital gains tax (as too are any profits made by those selling in the owner-occupied sector). The profits to be made in the short term are not insignificant, and there is therefore a long waiting list for housing in new co-operative housing projects (Berger et al., 1990: 3).

Lundqvist (1988a: 83) suggests that a member of a co-operative is similar *de facto* (but not *de jure*) to an owner-occupier. Members are responsible for maintaining dwellings, they can make modifications to the dwelling, they are entitled to tax relief and are entitled to keep any profits, subject to tax, from the subsequent sale of a dwelling. The ability to sell one's rights as a member of a co-operative has ensured that the value of these co-operative properties has increased markedly over the last twenty years.

In a recent study by Berger et al. (1990) an attempt was made to analyse to what extent different groups had benefited from these schemes in the past. They concluded that the opportunity to make profits was largely determined by the relationship between supply and demand in the local housing market. Those buying existing co-operative housing have to pay rents far in excess of those paid by members occupying new co-operative housing. Moreover, rents are high compared with those of similar rented dwellings in the social and the private rented sectors, where rents are intended to be non-profit rents. The result is that housing mobility, particularly to the older parts of the housing stock, has declined considerably. It is unattractive for tenants in the social rented sector to move to existing, and much more expensive, co-operative rented housing. In 1989, for instance, Marcusson showed that in Gävle the proportion of those living in homes built between 1931 and 1940 and who moved was 85% in the case of the co-operative sector and 60% in the case of the social rented sector. In the case of recently-built housing, these figures are the same.

Research by Berger et al. (1990) has shown that the waiting lists for co-operative new housing not only work to the advantage of those households that cannot afford existing co-operative housing, but that those households with the highest incomes profit from this method of distribution. The redistributive effect of waiting lists is thus almost negligible (Berger et al., 1990: 15).

As is the case with other sectors of the housing market, new housing is subsidized by providing cheap loans (the initial rate of interest in 1989 was 2.45%). The government provides a loan equivalent to 29% of development costs. Members are required to contribute a total of 1% of development costs,



either from their savings or by taking out a loan at market rates of interest. Prospective members of the co-operative can join the savings scheme operated by the bank associated with the co-operative, and they may be eligible for a loan from this bank at market rates of interest if their savings are insufficient.

Given the significant increase in the value of co-operative membership, prospective members are allowed to borrow up to three times the level of their savings. Loan guarantees may be available, particularly in the case of Riksbyggen affiliated co-operatives. In this way some municipalities effectively provide loans to these members. Those prospective members who are also members of the co-operative's savings scheme longest have a greater chance of becoming a full member when new dwellings are built.

9.3.3 The social rented sector

Until 1946-47, when the government introduced a policy aimed at expanding the provision of social housing, there was hardly any social rented housing construction in Sweden. After 1935 municipal housing associations could obtain loans from the government to finance the construction of rented housing, but little advantage was taken of this. In 1947 only 4% of the housing stock consisted of municipal rented housing. This proportion increased significantly with the introduction of a new housing policy. Municipal housing associations were given the task of increasing the number of houses constructed to a level sufficient to counter the effects of housing speculation in the private sector. During the next thirty years the stock of multi-family housing operated by the municipalities increased rapidly from 40,000 in 1957 to more than 700,000 by 1980. As part of the "one million dwellings programme" of 1965-74 (see section 9.4.2.), the municipal housing associations were responsible for building around 37% of the total number of new homes constructed. As in many other countries in Western Europe, the 1970s and 1980s saw a period of revisionism with regard to the large-scale housing projects built during the previous few decades. This led, among other things, to an increase in the number of empty properties at the beginning of the 1970s and a further increase during the first half of the 1980s (Lundqvist, 1988a: 91). Since 1984, however, there has been a sharp fall in the number of vacant properties, partly as a result of the cut-backs in the house-building programme (see section 9.5).

The municipal housing associations are organized in a national umbrella organization: the SABO. The SABO is involved in national rent negotiations. The 307 affiliated associations own 838,000 dwellings, or 21% of the total housing stock. One-third of all multi-family housing in Sweden is rented out by the municipal housing associations. The most frequent type of housing has two or three rooms and a floor space of 77 sq m (SABO, 1989). In the larger cities associations may be competing with one another, even though they are all owned by the municipality. The management of the housing associations is in the hands of a board composed of members of the municipal council.

The social rented sector also receives government assistance in the form of interest subsidies. Compared with the private sector, the social rented sector

benefits more from subsidies. Those building social housing can obtain 100% financing (private landlords 92%), 70% in the form of a mortgage from the state and 30% in the form of a government loan. As in the private rented sector, the difference between 2.7% and the real rate of interest to be paid on the loan is subsidized by the government for one year. Each year, the rate of interest to be paid is increased by 0.25 %. In 1980 about half of the real cost of a newly-built rented dwelling was subsidized through interest subsidies (Lundqvist, 1988a: 95).

Since 1978 Sweden has had a unique system for determining the level of rent increases; under this system rent changes in the social rented sector are decisive for the whole rented sector (Bobbe, 1987; van Dielen, 1988; and Severijn, 1988). From 1978 the relationship between landlords and tenants has been regulated by law. Severijn (1988: 9) has referred to a collectivization of rent legislation: the individual tenant is bound by collective agreements. In effect, rent protection for individual tenants has been replaced by collective protection. Where disputes prevail, however, the tenant can appeal to the district judge.

The law requires that negotiations take place between landlords and tenants concerning the annual level of rent increase. These negotiations take place at three different levels. At the national level the negotiations between the tenants' association and the SABO consider the average increase in rents for the year and the elements that determine the value of housing. The government is also involved in these negotiations. By means of an annual decrease in the level of supply subsidies, the government determines the basic increase in rent levels. Housing associations are forced to increase rents sufficient to cover at least this amount.

This basic level of rent increase is not binding, but serves as a guide in negotiations that take place at lower levels. In these negotiations the quality of housing is a central issue. Housing quality is reflected in a points system. The elements that determine housing quality are the subject of consultations at the municipal level, so that account can be taken of regional differences in the housing market. The quality of a dwelling, as measured in terms of the number of points on a scale, functions as a basis for negotiations at the urban and housing-complex level. The increase in rents for different housing blocks and different dwellings is then based on an evaluation of the quality of a dwelling and of the average minimum increase in rents required. At the level of the lessor or the housing block, the precise level by which rents are increased or lowered is determined. The negotiations are carried out by special delegations. These consist of four managers from the contract committees (the tenants' associations in the housing block) and an ombudsman. The changes in housing costs form the basis of these negotiations. In these negotiations the landlord has to publicize the real costs incurred and to indicate what the expected increases in housing costs will be. To an increasing extent negotiations relate not only to rent increases but also to the provision of amenities and mobility levies. Tenants' organizations and landlords, for example, have agreed that tenants are entitled to decide what level of amenities they want provided in their homes. This will also affect the level of rent of course. The tenants' organization and

the landlord determine what the charge for providing these amenities will be.

Once the level of rent increase for the housing block as a whole has been agreed, on the basis of changes in costs, this increase is distributed among the various dwellings based on the quality of each of these dwellings (van Dieten, 1988).

In practice, negotiations are seldom deadlocked. This is partly because of the legal prescription that, should no agreement have been reached by 1 January, then rents may not be increased at all in that year. This gives tenants a strong negotiating position. Moreover, disputes during negotiations can be submitted to arbitration. The individual tenants are contractually bound to accept the outcome of these collective negotiations. They may appeal to the courts, however, if they consider the proposed rent increases unfair. The wide-ranging consultations and negotiations ensure that recourse to the courts is rarely necessary (van Dieten, 1988: 467; Bobbe, 1987: 3; Severijn, 1988: 9).

What is also unique about the Swedish system is that negotiations in the social sector determine the level of private sector rent increases: rents of comparable dwellings in other housing sectors may not exceed those in the social rented sector; disputes can be resolved by recourse to the courts. This means that profits for investors in the private rented sector are low. In Sweden, as in Denmark, however, there is a predominant view that profits should not be made from renting out housing. There are even those arguing that rents in the private sector should be lower than those in the social rented sector on account of the fact that the level of interest subsidies is the same for both sectors, while the operating costs of social housing are greater since the social problems they face are greater (Bobbe, 1987: 3).

Van Dieten has argued that the Swedish system has a number of advantages. Rents can be differentiated according to housing quality and market value, that the distance between tenant and landlord is less, that rents are kept lower (the system makes it difficult to build up large reserves, unlike in the Netherlands), and landlords are forced to publicize how they operate their housing stock, giving tenants an opportunity to offer criticism. One disadvantage is, of course, that the complicated negotiations are time consuming and ultimately costly for both tenant and landlord. The costs to the tenants, in addition to the membership costs of the tenants' association (some f 160 to f 180 per year), are part of the running costs: one per cent of the revenue from rents is used to finance the contract commissions (van Dieten, 1988: 468).

A serious problem with which social landlords have been faced since the 1970s is the fact that they have been unable to maintain their housing stock. Lundqvist (1988a: 100) argues that this inability to build up reserves, as a result of the system of determining rents, has prevented landlords from building up the reserves necessary to maintain their housing stock.

In conclusion, rent increases are determined by lengthy and wide-ranging negotiations; in practice these inevitably mean that rents are tightly controlled.

Housing pressure groups in Sweden are better organized than in most other West-European countries. Tenants, for example, are strongly organized. In spite

of the fact that membership is relatively expensive (f 160 to f 180 per year), more than one-third of all tenants belong to a tenants' organization. In addition to participating in negotiations over rent increases, tenants' organizations are legally entitled to take decisions concerning certain aspects relating to their housing complex; these can include the cleaning of staircases, the maintenance of the grounds in which the housing complex is situated, and the provision of playgrounds. Tenants' organizations can decide on to whom these functions should be contracted out, or indeed on whether to do these themselves (Bobbe, 1987: 3).

The municipal housing associations are represented at the national level by the SABO. Private sector landlords are represented by the Swedish Federation of Rented Property Owners. There is also an organization of building contractors. All these organizations have considerable influence on housing policy; they participate in many commissions and also sit on the board of the independent national housing advisory body, the Bostadsmarknadsråd, based in Karlskrona. Its function is to provide advice on matters relating to housing policy (see van der Laar, 1990: 66).

9.3.4 The construction industry

Although the government can influence construction costs, the degree of free competition shorn of public regulations is limited. The construction of multi-family housing is dominated by ten to fifteen large construction companies, whereas single-family houses are built by a large number of enterprises. The construction of multi-family housing has scarcely been profitable in recent years. In the industrial and commercial construction sector returns on investment have been much higher (generally around 20% or more), partly because rent controls do not operate in these sectors.

In contrast to construction companies, the building materials industry in Sweden is strongly monopolized, and as a result the profitability of labour is higher than in any other industrial sector (Anas et al., 1985: 182).

Housing construction in Sweden in the period 1970-85 was characterized by a shift from the construction of new housing to maintenance and housing improvements (Table 9.2). The switch from new construction to improvement was largely the result of the housing improvement programmes introduced by the government during the 1980s (see section 9.4). This situation was consolidated by the fact that capital was redirected to other sectors (Ministry of Housing and Physical Planning Sweden, 1988: 2). Anas et al. (1985: 182) suggest that the marked increase in building costs in the 1980s reflected the slowing down in the level of housing construction and discontinuity in construction. As demand for new housing fell, the industry was compelled to raise prices in order to safeguard its capital investments. The authors further suggest that, as a result of the monopolistic character of the construction industry, the principle of rent controls in new housing construction is losing its impact. It is increasingly the industry and not, as in many countries, those renting out housing, that benefits most from increases in rents.

Table 9.2 Value of new construction, 1970-87, in 1980 prices (in millions of Swedish kronor)

	1970	1975	1980	1985	1986	1987
New construction						
- housing	26 892	21 789	19 027	10 864	9 471	11 964
- industry	5 309	7 115	4 520	4 092	4 601	5 228
- other construction	19 941	18 229	19 965	17 714	19 306	19 090
- utilities	14 680	14 221	13 343	13 072	12 588	21 947
Total	66 822	61 354	56 855	45 742	45 966	49 229
Housing improvement	1 584	3 349	5 463	13 622	14 228	14 427
Maintenance						
- housing	4 867	6 689	8 565	10 891	11 003	11 112
- other construction	5 364	5 837	7 192	7 209	7 309	6 510
- utilities	3 510	3 927	4 845	55 742	6 195	6 250
Total	13 741	16 453	20 602	23 842	24 507	23 872
Total output	82 147	81 156	82 920	83 206	84 701	87 528
Proportion of GNP	19.0	16.5	15.8	14.5	14.6	14.7

Source: Ministry of Housing and Physical Planning Sweden (1988: 2).

The construction industry grew continuously during the 1980s. In order to overcome the effects of price increases in the construction sector, the government took a series of measures in 1986 intended to increase the housing supply. These measures included the introduction of construction licences in Stockholm and Göteborg in order to limit building activity to housing construction, the introduction of improvement programmes, the provision of additional subsidies in 1987 and 1988 for the construction of housing, and the establishment of special delegations whose task it was to encourage housing construction (Ministry of Housing and Physical Planning Sweden, 1988: 2).

9.4 The development of housing policy 1970-90

9.4.1 Background

During the first half of the twentieth century there was hardly any state involvement in housing. Sweden was an unregulated capitalist economy in which the government took little, if any, role in directing industrial development and housing construction. Many labourers moved to the cities, attracted by the employment opportunities offered by industrial expansion; this industrial expansion was not accompanied, however, by a corresponding investment in housing construction, which was much less attractive to investors than industry. The quality of the housing stock was poorer than that in other countries in

Western Europe, and, as in other countries during the second half of the nineteenth century, there was much speculative housing construction. It was only in 1933 that the government recognized the necessity of developing an integral policy for the labour market and the housing market. Sweden was one of the first countries in Europe in which public investment in housing was regarded as an important instrument of employment policy. Until the Second World War, however, efforts were mainly directed towards coping with the most serious housing problems, such as overcrowding, and the provision of basic sanitation in dwellings. Government assistance was largely provided through the co-operative associations established by tenants (the HSB; see section 9.3.2). Such initiatives enabled these tenants to leave the private rented sector and to rent better-quality housing more cheaply (Strömberg, 1986: 3).

Gradually, a unique relationship emerged between the government and labour market organizations that eventually resulted in an agreement in 1938; this agreement is generally considered to represent a milestone in the development of the Swedish welfare state. Those involved in this agreement were committed to economic growth, partly through the use of wages policy, and to an equitable distribution of the benefits of economic growth.

The change in Sweden's political orientation in the post-war years led to a fundamental change in housing policy and to an extensive degree of government involvement in the provision of housing. The housing shortage, which continued for over two decades, was decisive in determining new policy initiatives. The Social Democratic government that assumed office in 1945 formulated the following principles of housing policy: firstly, that the municipalities were to establish housing development enterprises; secondly, multi-family housing operated by private landlords would, in the future, have to be transferred to public ownership; and thirdly, land ought to remain the possession of the municipalities and leased for long periods.

In the years 1946-48 a comprehensive housing policy embodying these principles and aiming to bring about an improvement in housing conditions in Sweden was developed. The municipalities were required to construct housing and to take steps to end land speculation. The second objective, the transfer of housing from the private rented sector to the social sector, was eventually abandoned.

The principal objective of the government's housing policy was to expand the housing stock. No less important was its aim to ensure the availability of good-quality housing for all the population. It was therefore considered necessary to limit the profits to be gained from private sector rented housing and to circumscribe the degree of social segregation (Nesslein, 1982).

As part of this policy, two government bodies were established to effect the government's new policy; the Bostadsstyrelsen (National Board of Housing) was established in 1948 and the Planverket (the National Board of Planning) in 1967. In 1988 the two organizations merged to form the Boverket (National Board of Housing and Physical Planning). The structure of this organization is similar to that of its predecessors (Swedish Institute, 1989; Strömberg, 1986).

This is in contrast with many other countries in Western Europe, where changes of government have often led to new directions in housing policy. As a result of an almost continuous period of government by the Social Democratic Labour Party, housing policy in Sweden has been characterized by a high degree of continuity.

One of the principal policy aims of the Social Democrats was the construction of sufficient housing to ameliorate the housing shortage. In order to achieve this, a system of long-term housing finance was established. As part of this system, government loans and interest subsidies were introduced at the end of the 1940s. Given the low rates of interest and the low rate of inflation in this period, expenditure on interest subsidies was relatively modest.

In order to cover the proportion of housing finance that could not easily be raised on the capital market (about thirty per cent of total financing), a system of second mortgages, taken out with the state at a low rate of interest, was introduced in 1941 (Swedish Institute, 1989). In 1968 this method of subsidization was replaced by a dynamic system of financing (with an increase in the level of debt). Under this new system, the first mortgage (government loan) continued to take the form of a loan. The second mortgage had a special construction; the debt on this loan increased initially for several years. The level of this increase was determined by the level of net repayments on the first and second mortgages. In turn, these were more or less guaranteed (in real terms) for the duration of the loan. An important condition for the optimal functioning of the system was that a political decision be made each year concerning the increase in the level of borrowers' repayments. Without this, the increase in the level of debt outstanding on the second mortgage would be too steep. In practice, however, the system did not work too well (partly because of high interest rates and inflation) and it was replaced in 1975 by the present system of interest subsidies (see Papa, 1991).

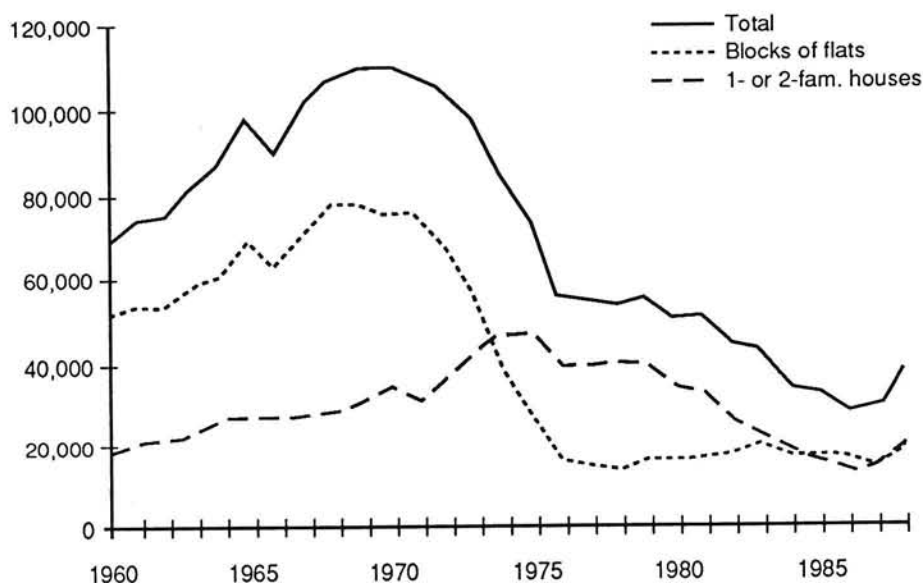
Another important policy measure was the introduction in 1942 of rent controls; as a result, rents were virtually frozen until 1978. The principle behind this system was that rents ought to be based on the original costs of construction.

In addition to improving the system of housing construction finance, housing benefit was introduced for families with children. In the 1960s the housing benefit system was extended to include the retired.

9.4.2 The period 1965-74; the "one million dwellings" programme

In 1964 the "one million dwellings" programme was drawn up; it represented one of the most significant attempts to ameliorate the continuing housing shortage (Figure 9.1). It was envisaged that over a decade one million new homes would be built. Considering the size of Sweden's population, this programme can be considered ambitious. By 1974, however, the objectives of the programme had been achieved, giving rise to references to the "Swedish miracle" (Heady, 1979; Nesslein, 1982; Appelbaum, 1985). As a result of the enormous building programme, there were housing surpluses in some municipalities and the market for

Figure 9.1 New housing construction, 1960-88



Source: Swedish Institute (1989: 3)

new housing stagnated. During that period an average of 6.7% of GNP was spent on housing and 1,005,600 dwellings were built, mainly by municipal housing associations and co-operatives. Thus in 1970 the social rented sector was responsible for 43% of all new construction, and co-operatives provided a further 16%; 28% of new housing was owner-occupied and 13% was private rented housing (Appelbaum, 1985: 221).

Heady (1978: 48) suggests that the principal results of the housing policy pursued during this period were as follows.

- (1) The quality as well as the number of dwellings increased markedly. In 1945, for instance, only 21% of dwellings were equipped with a bath or shower, only 36% had an inside toilet, and only 46% had central heating. This situation had changed little by 1955. By 1974, however, 93% of households had a shower or bath, central heating, a refrigerator, a cooker and other modern amenities (in Sweden rented housing is equipped with these amenities as standard).
- (2) The realization of planned suburban settlements. As in most of Europe, the majority of new housing built in Sweden in the 1960s was high rise. The suburban centres in Sweden are characterized, however, by large open spaces, play-grounds for children, and centralized shopping facilities and other amenities. The residential areas built in Sweden during this period

are consequently more attractive than most city extensions in the rest of Europe (the grands ensembles in France for instance).

- (3) The lessened influence of the private landlord in determining rent levels. In 1968 legislation was introduced to make private sector rents dependent on those in the social rented sector (see section 9.3.3.).
- (4) The development of a system of demand subsidies. Almost forty per cent of households were eligible for these subsidies. The result of this system was to reduce the proportion of household income spent on housing.
- (5) There was an increase in the influence of municipalities on almost all aspects of urban development. The planning monopoly of the municipalities was reviewed. Their powers are beyond those available to local authorities in other European countries; they extend to preventing speculation, to the compulsory purchase of land, and to promoting desirable and avoiding undesirable planning and urban development.
- (6) The discontinuation of the system of providing temporary and emergency housing. During the first half of the 1980s, in particular, it could be claimed that there was good-quality housing available for every household in Sweden.

9.4.3 The period 1975-82: policy reforms

In the mid-1970s, for the first time, there was a housing surplus in some areas. Hitherto there had been serious and general shortages of housing, and government policy had aimed to ameliorate these shortages. This transformation in the housing market led in 1974 to the most important reconsideration of housing policy in Sweden since the 1940s.

The principles underlying the policy reforms of 1974 can be summarized: government assistance to the various sectors within the housing market should be equal, there should be freedom of choice for households in deciding in which housing sector to live, housing allocation should reflect housing needs, there should be a fair distribution of housing, and social amenities and care facilities should be provided in residential areas. These principles were developed in a series of policy guidelines (Tham, 1987).

- (1) The general level of public housing assistance ought to be sufficient to enable a household on an average income to afford a modern dwelling with sufficient space (credibility objective).
- (2) The effect of subsidizing the various sectors of the housing market should not be to advantage one sector above another; changes in costs within the various sectors should remain similar (neutrality objective).
- (3) The subsidy system must ensure that price differentiation on the basis of housing quality is possible (equality objective).
- (4) The subsidy system should aim to counter the transfer of wealth to owner-occupiers that results from inflation and the consequent rise in house prices (anti-speculation objective).
- (5) The subsidy system should aim to improve the position of the less well-off

- in the housing market (social objective).
- (6) The subsidy system should ensure that housing beyond a certain quality is not eligible for state aid (standard quality objective).

Lundqvist (1987a), in his evaluation of Swedish housing policy and of the option for a tenure neutral approach, indicates that the overall objective of policy as formulated in 1974 was not to force households into certain sectors of the housing market, but to enable them to have the maximum freedom of choice. Lundqvist suggests that there were three important elements in the housing policy introduced in 1974: housing quality, housing costs and participation.

Two objectives were formulated in the housing policy memorandum of 1974 with regard to housing quality: the sufficiency of large multi-family dwellings intended for families, and an increase in the number of rented single-family dwellings. The number of multi-family dwellings in Sweden is much smaller than the number of single-family dwellings. Further, the situation in which single-family housing could not be rented out had to be changed. The new policy aimed to ensure a greater variety in the type of housing available so that single-family housing could be provided in the co-operative and the social rented sectors.

In the case of housing costs, the government wanted a greater degree of harmonization between the various housing market sectors. The value of the substantial tax advantages available to owner-occupiers was increasing much more rapidly than the value of subsidies to other housing market sectors on account of the fact that subsidies to owner-occupiers increased in line with income. As in almost all other countries in Western Europe, access to owner-occupied housing was, therefore, restricted for those on low incomes. In the Swedish situation this meant, moreover, that these groups had no access to single-family housing.

Abolition of the tax advantages for owner-occupiers was a political impossibility however. The Social Democrats were afraid of the consequences this might have for the spending power of individual households, the dislocation that would result in the owner-occupied sector, the possible effects abolition might have on new housing construction, and, last but not least, such a move was politically undesirable (see section 9.1). That is why the government tried to achieve its neutrality objective by a differentiation in the level of interest subsidies provided to different sectors (see section 9.3). By providing owner-occupiers with a lower level of subsidy and by reducing the level of these subsidies more sharply than those to other sectors over subsequent years, the tax advantages for owner-occupiers (which included mortgage interest tax relief) would be neutralized. The objective was to equalize the level of public assistance to the rented and the owner-occupied sectors during the first five years.

The government recognized that the differences between the rented and the owner-occupied sectors were not only economic. Home owners had much more control over their housing than tenants did. The government therefore wanted to increase the role of tenants, in particular in the field of housing management,



maintenance and housing improvements. In effect, the government was advocating broad democratization in the rented sector.

Lundqvist (1987a) argued that the three main objectives of housing policy during this period evidenced considerable coherence. A more varied supply of flats and the distribution of single-family housing over the various housing market sectors (first objective) could be effected by harmonizing housing costs in these sectors (second objective), and tenure neutrality and freedom of choice could not be realized if tenants did not have greater control over their housing.

In spite of these far-reaching and general objectives, the government significantly modified its policies (Lundqvist, 1987a: 121-122). Thus, in practice, proposals to legalize the ownership of flats were dropped, and there are still no flats in the owner-occupied sector.

The co-operative sector became increasingly oriented to owner-occupation however. So in 1970 controls on the level of house prices were abolished and economic growth and deregulation in the 1980s led to a marked increase in prices in the co-operative sector, particularly in the larger cities.

Nor was the construction of small one or two-roomed single-family housing (a type of dwelling that predominates in the multi-family housing sector) seriously considered. Official guidelines on the size of dwellings, which had been suggested in previous policy documents, were not adopted either, because the costs of doing so were considered too great. As a result, the government was left with few ways of increasing the number of large flats. The aim of equalizing housing size in the rented and owner-occupied sectors gave way to one aimed at a more reasonable inequality. Tenants' rights were neither increased immediately nor radically. The government emphasized the dilemma between, on the one hand, an economic approach to operating the housing stock by the landlord, and, on the other, the influence of the tenants. So the influence of tenants was only gradually expanded, and the experiments in the co-operative sector were evaluated before changes in the social rented sector were introduced.

In the case of housing costs, the government's intentions were less far reaching than one might at first assume. Here, too, the government was not aiming for complete equality. Lundqvist argues that the government's objectives would have been realized if housing costs in the different sectors had changed similarly. A proposed tax reform that would have reduced the tax advantages to owner-occupiers was therefore not adopted.

One may assume that the Swedish government was not in fact striving for complete equality within the housing market. Its aim was mainly to introduce a greater degree of equity with regard to government subsidies.

Lundqvist has made a study of the effects of housing policy (Lundqvist, 1987a: 132; see Figures 9.2, 9.3 and 9.4). He argues that there was a marked and constant trend towards greater variation in housing type within the single-family housing sector. The variation in housing size in the case of flats has declined, however, and the proportion of large dwellings in the social and co-operative multi-family housing sector did not increase. Most large dwellings in the housing stock continue to be owner-occupied single-family houses. House

Figure 9.2 New multi-family housing, by size, 1975-85

Figure 9.3 New single-family housing, by sector, 1975-85

Figure 9.4 New single-family housing, by size, 1975-1985

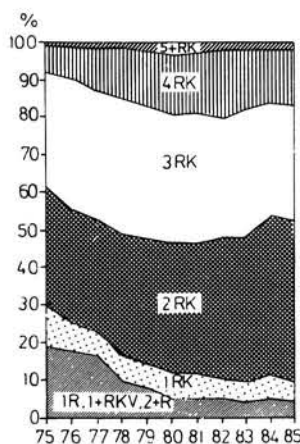


Fig. 1

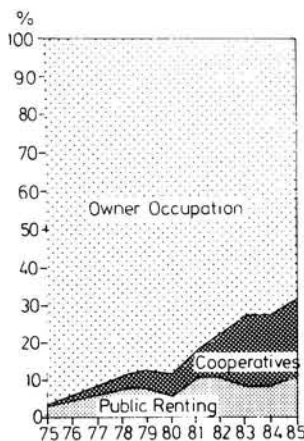


Fig. 2

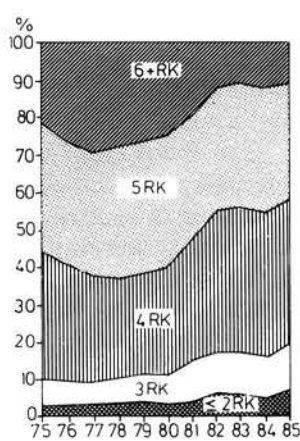


Fig. 3

Sources: Swedish Official Statistics; Lundqvist (1987a: 124)

holds wanting or needing a larger dwelling are often forced to look to the owner-occupied sector.

With regard to tenants having greater control over their housing, various legal arrangements have been introduced to enable tenants to have more influence on the maintenance and improvement of their dwellings. Formal negotiating procedures involving the various parties in the rented sector have influence of tenants (see section 9.3.3.), but tenants have acquired little real increased the decision-making power. In the private rented sector tenants have none at all. So, again, those tenants who wish to have any significant control over their housing are forced to look to the owner-occupied sector.

In the case of housing costs, however, there has been an increasing degree of harmonization, especially during the 1980s. Owner-occupiers continue to enjoy certain benefits unavailable to tenants; in particular, they can influence the level of service and maintenance costs, and they can profit from any increase in the value of their dwelling. To a certain extent these advantages also benefit tenants in the co-operative sector. There is therefore a clear economic benefit to those owning their own homes, and in this sense the goal of neutrality continues to evade housing policy in Sweden.

On the basis of these findings, Lundqvist argues that, if neutrality entails ensuring equal access to housing and an equal degree of control over one's dwelling, and if the choice between the various housing market sectors does not influence the eventual economic results of the housing market processes, one has to draw the paradoxical conclusion that government policy has to treat these sectors more differently than has been the case since 1974. In order to ensure tenure neutrality for individual households, certain housing market sectors have to be supported and others checked. In reality, however, the principle of neutrality means that financial aid to the different housing market sectors ought to be equal.

The Social Democratic government that undertook the major review of housing policy in 1974 was defeated in the general election of 1976 and a coalition consisting of moderate Conservatives, Liberals, and the Centre Party took office. Considering the fact that the Social Democrats had, in the course of its more than forty years in power, developed a strongly regulated welfare state, one might have expected the more right-wing government elected in 1976 to reduce the extent of state intervention and to create a housing market influenced more by market forces. In practice, however, this was not the case. Continuity in housing policy was more impressive than change, though significant reforms of the tax system were introduced at the end of 1982. The effects on public expenditure were only felt after 1982 however (see section 9.4.4).

As a result of the policy followed between 1976 and 1982, the level of government subsidies to the housing sector rose considerably, from 8 billion kronor in 1975 to 25.5 billion kronor in 1982 (see Table 9.3), 2.7% and 4.1% of GNP respectively. Much of this increase was the result of increasing expenditure on interest subsidies and indirect tax subsidies. This increase in the cost of interest subsidies is particularly remarkable. It was mostly the social and co-

Table 9.3 Housing subsidies, 1975-89, in current prices (in billions of Swedish kronor)

Subsidy	'75	'76	'77	'78	'79	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89
Housing benefit	3.5	36	4.3	4.6	5.0	6.0	6.0	6.3	6.8	6.9	7.1	7.2	7.5	8.1	8.4
Interest subsidies	1.8	2.2	2.8	3.1	3.7	5.0	7.2	8.9	9.9	10.5	12.3	14.5	13.3	14.2	17.7
Tax subsidy for owner-occupiers	2.7	3.5	4.8	6.0	6.3	7.9	9.9	10.3	10.9	10.7	13.0	13.2	13.2	16.5	17.9
Property tax	-	-	-	-	-	-	-	-	0.7	1.0	3.6	4.6	5.6	6.0	6.1
Total	8.0	9.3	11.9	13.7	15.0	18.9	23.1	25.5	26.9	27.1	28.8	30.3	28.4	32.8	37.9

Sources: Kemeny (1987a); Ministry of Finance Sweden (1990)

operative rented sectors that benefited from these subsidies. In the period 1982-87, under a Social Democratic government, the level of expenditure on housing subsidies was reduced, partly as a result of the introduction of a property tax (for a more detailed analysis see Papa, 1991). In 1988 and 1989 public expenditure on housing increased markedly and a reform of housing finance was considered necessary (see section 9.5)

The remarkable continuity in housing policy is a reflection of the political system in Sweden whereby the importance of floating voters has forced governments to take into account the interests of other political parties. Sweden has rarely had governments whose majorities were sufficient to enable them to ride roughshod over the interests of other groups. The growth in housing expenditure was largely occasioned by the economic recession of the mid-1970s rather than a change of government. This recession also led, as in most other Western-European countries, to stagnation in the owner-occupied sector in the early 1980s and to a slight fall in the real level of house prices.

9.4.4 The period 1982-90: the growth in government subsidies

Several problems continued to beset housing policy during the first half of the 1980s. The new Social Democratic government that came to power in 1982 faced rising public expenditure and a number of other serious difficulties. One resulted from the fact that comparable or similar multi-family houses had different rents, depending on the period in which they were built. Prior to 1978, rents were fixed on the basis of the original construction costs. Thus old multi-family housing in the cities (mainly private rented dwellings) were considerably cheaper than comparable dwellings in suburban areas (mainly social rented dwellings). Demand therefore switched from new housing to existing housing, and it became almost impossible to rent old housing in the cities. At the end of the 1980s, for instance, it was estimated that new applicants would have to wait between forty and sixty years before being allocated housing in the centre of Stockholm. In practice, the only way to obtain such housing is through personal contacts or the payment of large amounts of black market key money - or usually both of these. On the other hand, there was vacant housing in the suburban social housing sector. This inevitably had an effect on the social composition of tenure groups; the less well-off were disadvantaged in access to housing. Since 1984 the number of vacant dwellings has decreased.

Kemeny (1987a) argues that the reason why the inner cities in Sweden are not run down is that rented housing in the old city districts remains relatively attractive for tenants. The introduction in 1978 of a new system of calculating rent increases, whereby rents were related to the quality of the housing, had little effect on the private rented sector. The absence of anything similar in the social rented sector to the old private rented housing stock in the cities makes it difficult to determine the appropriate level of rent increase. Moreover, there is considerable resistance to large increases in rent, increases that would largely only benefit landlords. The present system of determining the level of rent increases is, in practice, characterized by a rather strict system of rent controls.

Cross pooling, an idea advocated by some Swedish authors and which involves surpluses made on dwellings in high demand being used to lower the rents of low-demand housing or subsidize new housing construction, provides no satisfactory solution to this problem. Housing vacancies and surplus demand will continue to be features of different sectors of the housing market.

A second major problem was that the cost of mortgage interest tax relief for owner-occupiers and members of co-operative tenant associations rose rapidly during the 1980s (see Table 9.3). The cost of mortgage interest tax relief at the beginning of the 1980s was already more than was consistent with the principle of tenure neutrality; but in the mid-1980s it rose substantially as a result of the increase in house prices.

This development had a disastrous impact on the rented housing sector. Given the growing attraction of owner-occupation, housing managers in both the private and the social rented sectors were unwilling to build single-family rented housing. In addition to the legal prohibition that prevented flats from being owner-occupied, the strict division between the rented sector, which consisted almost exclusively of multi-family housing, and the owner-occupied sector, which consisted almost exclusively of single-family housing, was thereby perpetuated. Households with children, in particular, have little real housing choice. They have to look to the owner-occupied sector, while higher-income groups, too, are attracted to this sector by indirect tax subsidies (Kemeny, 1987a).

Kemeny argues that a third problem was the continual growth of the housing bureaucracy; the development of central organizations of tenants, landlords and co-operatives was paralleled by a virtual end to the involvement of individual members. Housing policy is increasingly being determined by the political manoeuvrings of large and established organizations and central government, and local initiatives no longer have much chance of success.

In an effort to solve these problems, the new Social Democratic government that came into power in 1982 established a commission composed of representatives from a wide-range of political groups. This commission was primarily concerned with the rising cost of housing subsidies. Some, but not all, of the recommendations of the commission were implemented by the government. The commission's proposal to adopt a new complicated system of housing financing, similar to the system of dynamic cost rents recently abolished in the Netherlands, was rejected however.

In 1986 and 1989 similar measures were once again proposed, and in December 1990 eventually approved by Parliament. This new system will be introduced in January 1992 in the case of new housing construction, though it is still uncertain whether the opposition, if they win the general election due in the autumn of 1991, will support it. The differences in content between the various proposals were few and limited largely to matters of presentation. The proposed deregulation of the capital market and the reform of the tax system contributed to the reform package being approved by Parliament. These made the successful working of the system of dynamic financing much easier.

In 1982, under the centre-right coalition government, the tax system was

**Table 9.4 Housing investment by type of housing, 1970-86, in 1980 prices
(in billions of Swedish kronor)**

Year	Total Housing	New construction		Improvements
		Single-family	Multi-family	
1970	28 476	11 601	15 291	1 584
1971	28 347	11 208	15 614	1 525
1972	28 936	14 138	13 474	1 324
1973	28 006	16 154	10 296	1 556
1974	25 456	16 793	6 673	1 990
1975	25 138	16 623	5 166	3 349
1976	22 986	16 229	3 580	3 177
1977	22 434	15 606	3 387	3 441
1978	25 593	16 311	4 157	5 125
1979	26 051	15 709	4 689	5 653
1980	24 490	13 942	5 058	5 463
1981	23 340	11 635	5 472	6 233
1982	22 942	9 572	6 024	7 346
1983	22 657	8 134	5 939	8 584
1984	24 333	6 774	5 458	12 101
1985	24 487	5 745	5 119	13 623
1986	23 691	4 927	4 541	14 223

Source: Marcusson and MacArthur (1989: 2)

radically revised. Tax relief on mortgage interest was reduced from 100% to 50%. This important reform was the result of a political compromise between the coalition government and the Social Democratic opposition. Subsequent tax reforms reduced the level of mortgage interest tax relief to 40% in 1990 and 30% in 1991. In addition, a modest property tax was introduced in 1983 (see Table 9.3). Other measures were introduced in this period to limit the growth in expenditure on housing benefit. These were reasonably successful, and the number of households claiming housing benefit has declined in recent years (see Papa, 1991).

In order to effect a major improvement in the existing housing stock, the government introduced a ten-year plan at the beginning of the 1980s. Its purpose was not to increase the level of new construction, but to improve the quality of existing housing through a programme of renovation and housing improvement (Marcusson and MacArthur, 1989: 1; see also Table 9.4). These efforts were partly in response to a decline in the number of new dwellings being built from 51,400 in 1980 to 28,800 in 1986 (see Table 2.16), a decline that reflected the low yields on housing investment during this period. The level of housing construction in Sweden is strongly influenced by market developments, and the government has no housing construction programme. There are some observers who doubt the efficiency of the housing improvement programme however. Research has shown that in comparable dwellings in the co-operative sector, for instance, housing improvements were carried out less frequently. The members

of the co-operatives themselves decide, on the basis of profitability, whether or not to carry out improvements or major maintenance.

9.5 Housing policy in the 1990s

As in many other countries in Western Europe, considerable consideration is being given to the nature of the housing policy to be pursued in the 1990s. A number of factors have increasingly begun to play a role in housing policy in Sweden. Since the end of the 1980s, for instance, Sweden has been increasingly oriented towards Europe. In housing construction, for instance, greater emphasis has been put on the greater uniformity of building regulations in order to improve the export potential of the construction industry. It is distinctly possible that Sweden will join the European Community during the second half of the 1990s: it is expected that Sweden will apply for membership in 1991, though it is unlikely to be admitted as a member before 1994.

An important step in bringing Sweden more into line with Europe will probably occur in 1991 with the reform of the tax system. This reform will lower the rate of income tax and increase the rate of tax on unearned income. Currently the national rate of income tax begins at 5% and rises to 45% for those on top incomes; there is also a local income tax averaging 30% (the combined maximum tax rate is 72%).

These changes in marginal tax rates have significant consequences for the housing costs of owner-occupiers. On the one hand the level of mortgage interest tax relief will be reduced as a result of the lowering of tax rates and the limits imposed on the amount of mortgage interest tax relief, while on the other hand the level of real disposable incomes will increase. Not all groups are affected in the same way however. Model calculations made by the National Swedish Institute for Building Research show that it is those owner-occupiers on higher incomes that benefit most, while those on low incomes will lose (see Marcusson and MacArthur, 1989).

The tax reforms also have consequences for policies relating to other housing market sectors. Since the government is committed to a tenure neutral subsidy policy, the limiting of tax subsidies to owner-occupiers will lead to a reduction in government subsidies on loans taken out to build rented sector housing. Under the present subsidy system this would lead to higher housing costs, especially in the first few years after the completion of new housing.

In order to redress these problems, in 1989 a parliamentary commission proposed the introduction of a new system of dynamic financing. The principle underlying its proposals involved the replacement of the system of interest subsidies by one of dynamic financed loans whereby allowance is made for inflation and as a result of which costs in the first few years after construction can be contained and the negative distributional effects (particularly in the owner-occupied sector) ameliorated. The new system will be introduced on 1 January 1992 in the case of new housing (see section 9.4.4).

Apart from this, the proposals also aimed at reducing the level of government housing expenditure. It was apparent that, under the present system of interest subsidies, it was difficult to control the level of public expenditure on housing, which was largely determined by the rate of inflation.

In 1975, when the system was introduced, the market rate of interest was 7% and the government subsidized the difference between this and the initial rate of interest, which was 3.9%. Today, however, the market rate of interest in Sweden is nearer 14% and the initial rate of interest in the rented sector no more than 2.7%. In order to cover the costs to the government, 5 billion kronor has been reserved just for new housing construction completed in 1991. The inability to control expenditure is also a result of the fact that no limits are set to the level of subsidies for the new housing construction programme. It is therefore impossible to determine the level of expenditure on housing in the short term. In order to exercise a degree of control over the level of housing expenditure, interest subsidies are sometimes adjusted downwards, varying according to the year of construction.

The result of the changes that the government is proposing to introduce in 1992 will have to involve a diminished role for the government in housing and a reduction in the level of housing subsidies. In view of the increase in real disposable incomes in Sweden (on account of the tax reforms), this is considered unavoidable. Another reason underlying this is the desire to bring housing policy in Sweden more closely in line with that in other countries in Western Europe. In 1990 expenditure on housing subsidies amounted to 3.5% to 4% of GNP (see Papa, 1991). Those who lost out most by the proposed changes in the subsidy system were, however, compensated to some degree by the introduction of a more extensive system of housing benefit. In 1991 housing benefit was extended to households without children, and benefits were thereby available to all low-income groups. It is accepted that one effect of the reduction in supply subsidies is increased rents and thus pressure to increase the level of demand subsidies. Housing policy aims to ensure an equilibrium between demand and supply subsidies.

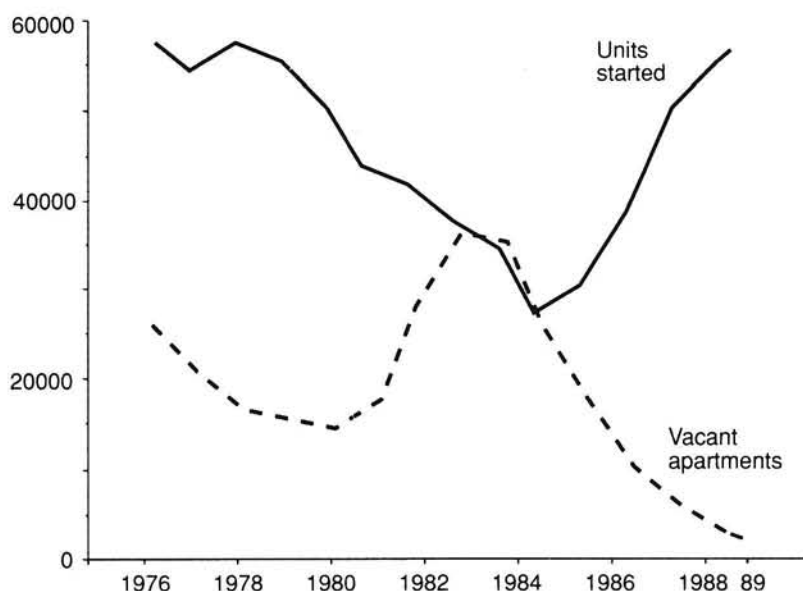
These policy changes are likely to lead to a number of problems. The number of new houses constructed is expected to decline because housing costs will increase in real terms. Another problem is that the degree of social segregation among housing groups is expected to increase, and those on low incomes will form a disproportionate part of those in the social housing sector. The new proposals will make it more difficult for first-time buyers to move to the owner-occupied sector and, in general, it is not expected that there will be a significant expansion in the size of the owner-occupied sector in the short term. Many households with one or more children already own their own home (72% of households are in the owner-occupied sector; a further 21% live in rented housing and 7% have housing in the co-operative sector). Small households find owner-occupation unattractive because owner-occupied housing tends to be large (see Table 9.1.). Most of those living alone rent their homes (67%, compared with 22% living in co-operative housing and 11% who are owner-occupiers).



Furthermore, proposals to stimulate the sale of rented housing have had little success so far, largely because the interest subsidies available for housing construction in the rented sector will be lost.

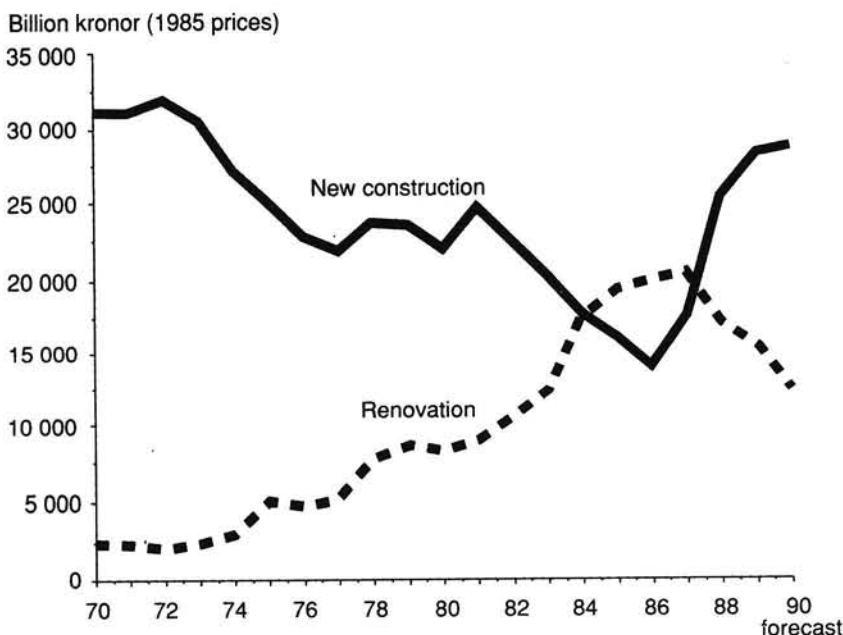
Flats are sold to co-operatives. In spite of its advocated policy of tenure neutrality, it has been more attractive in recent years to provide new housing in the co-operative sector. Half of all new construction of single-family housing in 1990 was co-operative housing. Though it has not been official policy, in practice the terms on which loans are provided to the co-operative sector are more lucrative than those provided for owner-occupied housing. The reason for this can be found in the way the level of subsidies is calculated: subsidies are granted to the owner-occupied sector based on the theoretical costs of constructing the dwelling, while subsidies to the co-operative sector are calculated according to real construction costs (within certain limits). In practice real construction costs are higher than theoretical costs and, as a consequence, the value of subsidies provided to the co-operative sector is higher. The result is that real costs in the owner-occupied sector are about thirty per cent higher, depending on the region in which the dwellings are built. This situation conflicts, of course, with the government's stated aim of pursuing a tenure neutral policy.

Figure 9.5 Number of vacant and newly-built flats, 1976-89



Source: Ministry of Finance Sweden (1990: 117)

**Figure 9.6 Investment in new housing construction, 1970-90, in 1985 prices
(in millions of Swedish kronor)**



Source: Ministry of Finance Sweden (1990: 118)

In addition, this inequality also provides a reason for changing the present subsidy system. A further reason why the housing construction programme has seen an increase of some fifty per cent in the construction of multi-family housing is that much new housing is built in cities.

A number of other problems have also had an important effect on the Swedish housing market. There has been a marked housing shortage in most municipalities in the last few years as a result of rapid economic growth in the mid-1980s and the low level of new housing construction. In spite of this shortage, there is a reasonable equilibrium between the total number of households and the number of dwellings. On the basis of household composition, however, there is a surplus of 200,000 small dwellings and a shortage of large dwellings. Further, the number of second houses is increasing in Sweden, and not all housing is of an acceptable quality; few families wish to live in the worst of the 1960s-built, high-rise housing estates on the outskirts of the cities.

This increased demand for housing has had a major impact on the number of vacant properties (see Figure 9.5). After 1984 there was a considerable decrease in the number of vacant multi-family dwellings. The increased demand for

housing has also prompted an increase in the number of houses being constructed. The number of housing starts in the first three-quarters of 1989 was twenty per cent higher than in the same period in 1988; the number of housing starts in 1989 (55,000) is estimated to be the highest since the mid-1970s (see Figure 9.4).

The government's present housing policy endeavours to increase the number of houses being constructed by restricting the level of other building activities (including housing improvements and renovation). Interest subsidies for renovation were reduced by 50% between 1988 and 1989, and this led to a decrease in renovation activity by 28% (Figure 9.6). Measures are also being taken to limit demand in the construction industry so that the increase in construction costs can be controlled. These measures seem to have been successful. Thus construction costs increased by 16% in 1988, or 2.5 times the rate of inflation. In 1989, however, the increase in construction costs was equal to the rate of inflation (Ministry of Finance Sweden, 1990: 119). The success of these measures is to an extent decisive in ensuring an equilibrium between supply and demand in the Swedish housing market (Marcusson and MacArthur, 1989: 1; Ministry of Finance Sweden, 1990: 117-119).



THE GENERAL FRAMEWORK OF HOUSING POLICY: DIFFERENCES AND SIMILARITIES

10.1 Objectives and structure of the study

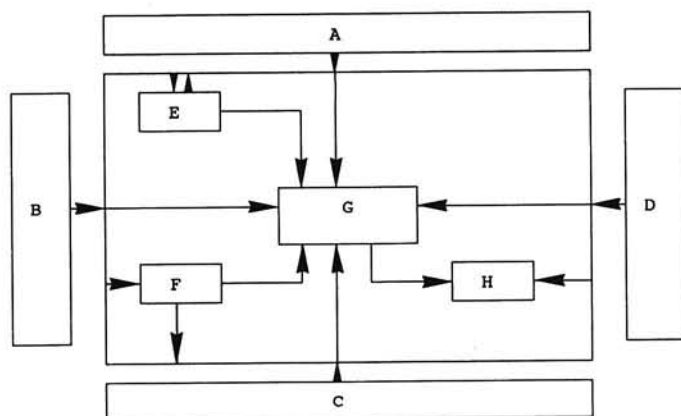
There is growing interest in what is happening in other EC-member states, partly, of course, on account of the impending European economic integration. Apart from an increasing general interest in the policies being pursued by neighbouring countries, however, interest in the housing sector and the policies being implemented in these countries in the field of housing was given an additional stimulus by the publication of a government memorandum on housing policy in the 1990s, the *Nota Volkshuisvesting in de Jaren Negentig* (VROM, 1989). This document has provided a new framework for the housing sector in the Netherlands, and it should prove to be a significant determinant of future housing policy. During the debates on this important policy memorandum, the impact and the effect of the proposed new policies on other countries was referred to on a number of occasions.

There has therefore been a growing awareness of the fact that a study of the housing systems abroad can, firstly, have an innovating effect on domestic policy making. Secondly, a familiarity with the functioning of housing systems in other countries may serve to highlight particular features, and faults, of the Dutch system. These two observations constitute the background to the proposal for a comparative investigation of housing in seven West-European countries: the Netherlands, Belgium, the Federal Republic of Germany (FRG), England, Denmark, France and Sweden.

On the basis of an extensive analysis of the different approaches taken by those engaged in international comparative housing research (see Chapter 1), it was finally decided to split the study up into a number of separate research projects. This approach also reflected the dominant themes associated with the different approaches to comparative housing research: housing policy in general, administrative and legal aspects, housing finance, housing costs, tax legislation, housing needs, housing quality, land policy and housing management.

After the project has been concluded, we hope to set up a permanent data bank based on our findings and to broaden the study to include other EC countries.

Figure 10.1 Background factors determining the structure of the housing market



- A = socio-economic factors
- B = demographic factors
- C = administrative and legal factors
- D = spatial factors and physical planning systems
- E = organization of the housing market and those involved
- F = past housing policy
- G = objective characteristics of the housing market
- H = housing policy during the 1990s

In the present study we have outlined the overall policy framework and described the administrative and legal features characteristic of each country. There then followed specific case studies. An analysis of the most significant approaches to international comparative housing research led to the selection of the policy areas and issues to be examined (see Figure 10.1).

Firstly, it was considered important to study the various background variables that affect the housing market. The following variables were considered: socio-economic factors, demographic factors, administrative factors, and spatial factors and physical planning systems. Subsequently, an analysis was made of the housing systems themselves, by means of a consideration of past housing policy, the organization of the housing market and those involved, and the housing policy envisaged for the 1990s. These interact with four external factors and determine the objective characteristics of the housing market (though not the housing policy envisaged for the 1990s). These objective characteristics include such things as the size of the housing stock, average household size, level of new construction, the tenure characteristics of households, and housing costs (see Chapter 2). In order to make strict comparisons possible in discussing the housing characteristics of all seven countries, we have used only those data available in a form similar for all the countries represented in this study. In

subsequent analyses of specific aspects of the housing market these objective characteristics are considered in greater detail within the appropriate country chapters. The socio-economic and demographic factors are presented in a series of tables and graphs in Chapter 2.

The second part of this study (Chapters 3 to 9) focused on the housing market itself. Particular emphasis was placed on the subjects outlined in Figure 10.1. These include a consideration of past housing policy, the organization of the housing market and those involved in it, as well as of housing policies envisaged for the 1990s.

In Chapters 3 to 9 the countries are analysed separately. There we discussed those elements of Figure 10.1 which cannot be presented in a uniform way. The administrative and legal frameworks, for instance, spatial factors and systems of physical planning, the organization of the housing market, the general development of the housing policy since the 1970s, and the housing policy envisaged for the 1990s, vary so much between countries that they do not easily lend themselves to overarching descriptions.

Given the diversity of subjects to be dealt with, it is not feasible to discuss them in an integral way in this summary. We have therefore restricted ourselves to reviewing the most important general differences and similarities between the countries involved. We do not discuss here the effects of the policies introduced in the various countries (the reader is referred to the specific country chapters for a discussion of these). It should also be stressed that since the present study is but part of a larger project, an exhaustive analysis of the housing markets in the various countries cannot yet be given. Such an analysis can only be made when all the separate studies have been completed.

In section 10.2 we discuss a number of factors exogenous to the housing market, such as demographic change and socio-economic characteristics. We then go on to consider housing construction and construction policy in the various countries. The differences and similarities in the objectives of housing policies are summarized in section 10.4, after which we suggest some of the most important challenges facing housing policy in the seven countries during the 1990s.

10.2 Exogenous factors: demographic change and socio-economic limitations

Although housing policy and the objectives that have subsequently been pursued have had, of course, an important bearing on the realization and the characteristics of the present housing market, the development of the housing market was also strongly influenced by a number of factors outside the direct reach of housing policy. The first of these are the changes in population size and composition that to a great extent determine the demand for housing and, consequently, the required level of new construction. From the analyses in Chapter 2 it appears that the population of the Netherlands grew by 13.6% between 1977 and 1988. This was by far the most significant increase in population recorded in

any of the seven countries; the next highest was that in France (10.3%). Sweden and Denmark showed more modest rises of 5.1% and 4.5% respectively. In Belgium, England and the FRG the rate of population growth was lowest. It is expected that this same pattern of population growth will be reproduced in the future too: the population of the Netherlands, France, Sweden and England (in order of expected future growth rates) is expected to increase further until after the turn of the century, while Belgium, Denmark and the FRG are likely to experience a population decline. The effect of the unexpectedly rapid German reunification in October 1990 and of the growing influx of foreigners (particularly German-speaking minorities from eastern Europe) has been to force demographers to revise their estimates of future population trends in Germany. According to some estimates, some 400,000 so-called Aussiedler (ethnic Germans) settled in the FRG in 1990. Since the Constitution entitles all the aussiedler to migrate to the FRG, significant numbers of immigrants from Eastern Europe and from the USSR may settle in the FRG in the near future. It is difficult to estimate the precise level of this population migration, or the durability of this demographic development; it is possible, for instance, that significant numbers will return to the East.

Because of a preference for smaller households or for living alone, in all the countries included in this study the number of households increased more than the population. This phenomenon was most evident in the Netherlands, where the decrease in the average household size was greatest. The tendency to smaller household sizes started somewhat later in the Netherlands than in the other countries, but it became relatively marked during the 1970s and 1980s.

On the basis of the above data one may conclude that autonomous housing demand was highest in the Netherlands during the period 1970-87: during this period the number of households increased by no less than 48.7%. Other countries experienced the same phenomenon, but to a lesser degree: in France the figure was 29%, in England, the FRG and Denmark 22%, while in Belgium and Sweden it was 15.6% and 12.1% respectively.

As a consequence of the high rate of population increase in the Netherlands, the increase in per capita Gross National Product (GNP) was relatively small during the period 1970-88 compared with a number of other countries. In Belgium per capita GNP increased by 50.6% and in the FRG by 47.6% between 1970-88; in England the figure was 46.3% and in France 46.0%. The corresponding figure for the Netherlands was 30.5%. Since 1982 all seven countries have experienced an increase in GNP (with the exception of Denmark, where per capita GNP was decreasing in 1987 and 1988). This growth was once again lowest in the Netherlands.

In conclusion, the significant expansion of the housing stock in the Netherlands during the period 1971-88 necessitated by the increase in the number of households has required a considerable degree of new construction. Yet by far the largest expansion in the housing stock had to be realized by the country with the lowest rate of increase in per capita GNP. In this respect Belgium was in a much more favourable position: it had both the highest rate of growth in per

capita GNP and the least need for an autonomous expansion in the housing stock. England and Sweden were also in a somewhat favourable position, while France and Denmark were faced with lower rates of increase in the number of households but at best only moderate increases in per capita GNP. The FRG occupies a unique position. Because of the need to provide new housing in the former German Democratic Republic and to improve existing housing, or simply demolish the worst of it, and because of the uncertainty concerning the numbers of immigrants from the East, the need for new housing construction will most probably be greatest in Germany in the near future.

10.3 Housing construction and housing construction policy

In all the countries reviewed in this study there existed to a large but varying degree housing shortages after the Second World War. Consequently, in all countries large-scale housing construction programmes were drawn up and the financial means provided to alleviate this shortage. National governments varied in their approach to this. By providing supply subsidies the governments of France and the Netherlands were able to expand the non-profit rented sector considerably (in the Netherlands this sector consists predominantly of approved housing associations and in France of the HLM). A similar development can be observed in Sweden and England, with the difference, however, that in these countries local authorities were mainly responsible for the expansion in the non-profit rented sector. The publication of the Housing White Paper in 1953, however, led to a change of emphasis in England: private initiative was strongly encouraged, and local authority housing activities were restricted (though, despite this, substantial numbers of council houses were built in Great Britain in the 1950s and 1960s). In Belgium and Denmark, too, the post-war years saw a rapid expansion in the size of the non-profit rented sector. To alleviate the serious housing shortage as quickly as possible, the governments of both countries took measures to stimulate the private rented sector immediately after the Second World War.

In the FRG, unlike in most other countries, supply subsidies for non-profit rented housing were no longer provided only to non-profit housing associations, but to whoever was prepared to meet the conditions attached to subsidies. The plan to interest private investors, in particular, in providing non-profit rented housing has met with much success. After government grants to the non-profit rented sector cease, those owning the properties are able to operate their housing stock as private rented housing, and they cease to be subject to the restrictions imposed on the non-profit rented sector. In the FRG, in addition to the supply subsidies available to the non-profit rented sector, those in the private rented sector are also eligible for demand subsidies.

As a result of these measures taken during the first two decades after the Second World War, the housing stock was expanded considerably. The number of dwellings per 1000 inhabitants was approximately the same in 1970 for all

countries, with the exception of the Netherlands where the number of dwellings per 1000 inhabitants is much lower (289) than that in other countries. The figure for Sweden was 394, France 366, Belgium 355, Denmark 353, England 346, and the FRG 341. These variations can largely be explained by the differing rates of population growth, in particular by the fact that population growth has been highest in the Netherlands.

Although the number of dwellings per 1000 inhabitants was relatively low in 1970, it is clear that the housing stock in the Netherlands grew more rapidly during the period 1970-85 than in the other countries. The rate of increase in the housing stock in the Netherlands between 1970 and 1985 was 42.2%. The corresponding figures for the other countries are significantly lower: France 35.6%, Denmark 31.9%, the FRG 30.2%, Sweden 21.5%, and England 16.7%. Since the population increase in the Netherlands was greater than that of her neighbours during the period 1970-87, however, the ultimate increase of the number of dwellings per 1000 inhabitants was less spectacular than the growth in the housing stock. Even so, the number of dwellings per 1000 inhabitants increased most in the Netherlands (28.7%) and the FRG (29.9%). Denmark and France followed with 24.4% and 22.7% respectively, and in Sweden (14.7%), England (14.5%), and Belgium (14.1%) the increase in the number of dwellings per person was lowest.

Demographic change and new housing construction during the period 1970-86 have led to greater similarity with respect to the number of dwellings per 1000 inhabitants. In 1986 France had the highest number of dwellings per 1000 inhabitants (451), followed by the FRG (448), Denmark (445), Belgium (406), England (399) and the Netherlands (377). If we take into consideration the fact that the Netherlands is expected to continue to have a high rate of population growth in the future, the rate of housing construction in the 1990s will have to be much higher there than in other European countries if the number of dwellings per 1000 inhabitants is to approach the level in these countries.

In addition to the rate of housing completions, the proportion of GNP invested in housing can also serve to indicate the level of building activity. In all seven countries this proportion decreased during the period 1965-85. In Belgium, particularly, and to a lesser extent in France, this decrease was relatively marked. In Belgium, the Netherlands and the United Kingdom the share accounted for by investment in housing has increased somewhat since 1985. The proportion of GNP invested in housing in 1987 was highest in the FRG (5.2%), France (5.2%), and the Netherlands (5.2%). It was lowest in the United Kingdom (3.7%) and Belgium (3.4%). The corresponding figures for Sweden and Denmark were 4.3% and 4.5% respectively.

As a consequence of the construction during 1975-87 of new housing that was more expensive than the existing housing stock, the proportion of housing costs in overall consumer expenditure increased during that period. The increase in rentable values and the proportion of income spent on rents was highest in the Netherlands (37%). The figures for other countries are: France (24%), the FRG (22%), Denmark (16%), Sweden (12%) and the United Kingdom (12%). The

figure for Belgium is not available. Because the calculation of rentable values and proportions of income spent on rents differs between the seven countries, it is unreasonable to try to effect a direct comparison. Housing costs at the micro level are examined in a separate report.

An important characteristic of housing, and one about which little information is available, relates to the quality of the housing stock. The only international statistics that are available in this respect concern the housing stock according to the year of construction and according to the level of amenities provided. It appears that in France, the United Kingdom, Belgium and Denmark a relatively large proportion of the housing stock was built before 1945. The Netherlands, the FRG, and Sweden have a relatively young housing stock. If we use the availability of a toilet and of a bath or shower to indicate the level of amenities provided, then housing in Sweden and Denmark has the highest level of amenities, followed by the Netherlands.

A separate study concentrating on the quality of housing will produce more information concerning the variations in housing quality in these countries. Such information is indispensable for evaluating the effects of housing policy.

10.4 Housing policy between 1970 and 1990

Previous chapters have presented a detailed description of housing policy in each country since the 1970s. As a number of authors (including McGuire, 1981, and Adriaansens and Priemus, 1986) have already noted, one can distinguish a number of stages in housing policy in these countries since the Second World War. As a general guide, four stages may be distinguished. Which stage a particular country is in depends to a great extent on a number of external factors, the perception of the role and tasks of government in general, and of the housing targets and objectives of the government in particular. With regard to external factors, the level of supply and demand within the housing market and economic conditions play a role of great importance. Equilibrium in the housing market is determined by a combination of demographic factors and the level of housing construction and demolition. These variables may vary widely between countries. Moreover, economic development also plays a significant role. Both the oil crisis in the 1970s and pressure on public expenditure during the 1980s (partly as a consequence of high oil prices) have had in this respect a significant impact on housing policies in the various countries concerned. On the basis of these factors and of the responses by governments, the following four stages in the development of housing policy can be distinguished.

During the first stage, after the end of the Second World War, there was a considerable degree of government involvement in housing. Government policies were oriented primarily towards the realization of a large-scale housing construction programme in order to alleviate the housing shortages caused by the war. In the second stage housing policy was more concerned with the quality of housing. The new houses being constructed were more spacious, with more

rooms, and the level of amenities provided was higher. Furthermore, this stage was also characterized in many countries by the switch from new construction to the improvement and maintenance of the existing housing stock. The quality of the housing stock was improved by slum clearance or by renovating poor-quality dwellings.

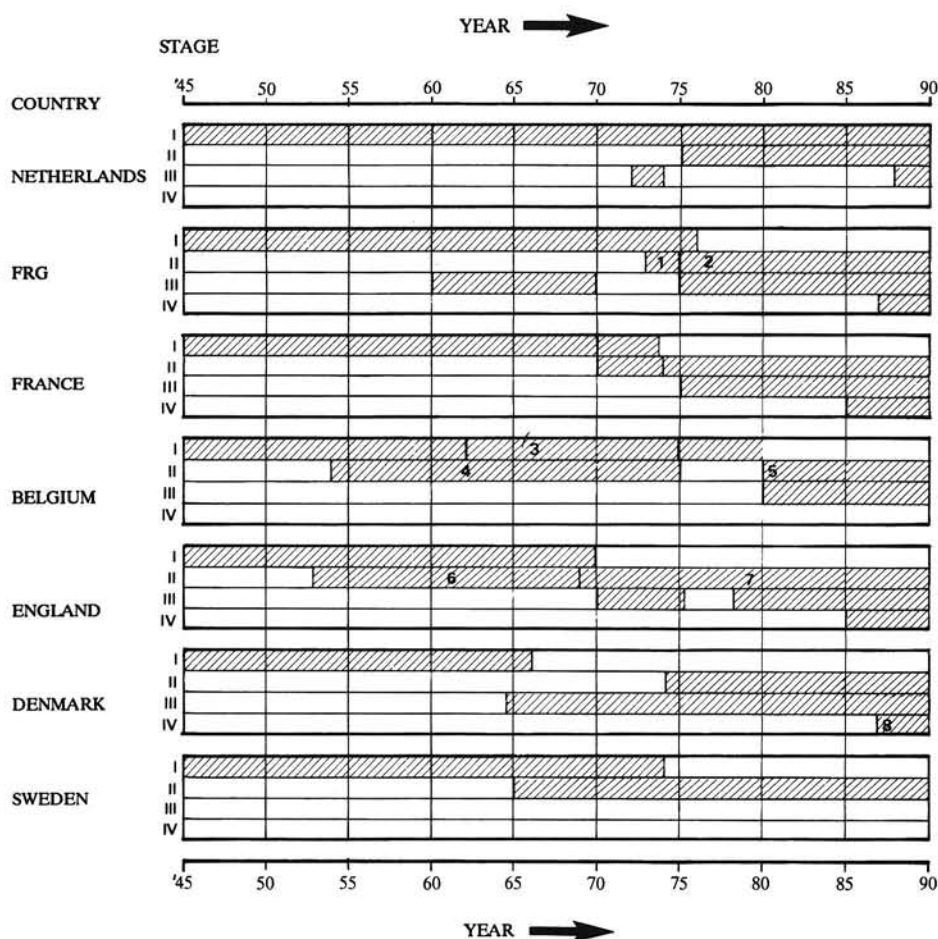
In the transition from the second to the third stages market influences play an increasing role. Often the concept that each household ought to be accommodated according to its needs is steadily abandoned, and housing provision increasingly depends on effective demand. In the third stage much attention is given to the problems of distribution. Because of the decline in public expenditure, the suitability and effectiveness of the various instruments which form part of a government's housing policy are subject to critical considerations. As a result of the reduction in overall subsidies, like general supply subsidies for new construction, and the extension of demand subsidies, the position of less well-off groups in particular is given greater emphasis in housing policy. In this third stage one finds, in general, a decrease in the level of new housing construction.

Further, in a number of countries one can discern a fourth stage, characterized by housing shortages. These relate both to an absolute shortage and a shortage of affordable housing for the less well-off. A number of countries (Germany and France) have tried to ameliorate this shortage by increasing the financial role of the government and by passing legislative measures; in other countries (Great Britain for instance) the role of the government has not changed much. It is possible that a country experiences more than one stage concurrently, since they are determined by different external factors. Figure 10.2 indicates when these different stages are characteristic of the seven countries and when, if at all, they ceased to be so. The dating of the beginning and the end of these stages is based as much as possible on the policy objectives formulated by governments. As the chapters devoted to the specific countries have shown, however, policy in practice often proves to be more unpredictable than theory would suggest. Particularly on account of unexpected market influences (high interest rates, changing consumer preferences, economic stagnation, etc.), many aspects of housing policy could not be realized, or failed to have the effects intended. Examples of this are the attempts to deregulate the housing market in Denmark in 1966 and 1974, and the measures taken by a number of conservative-led coalition governments (including those of the Netherlands and Denmark) to assist the collapsed housing market at the beginning of the 1980s.

Finally, it should be said that the intensity with which each of the four stages has been experienced has differed between countries. In Belgium, for instance, there has historically been little public involvement in the housing market, whereas in Sweden and the Netherlands the influence of governments on housing has been relatively considerable.

From Figure 10.2 it appears that the various stages in the development of housing policy have not coincided in all seven countries. In Sweden there is no evidence yet of a withdrawal by the government from the housing market, nor a

Figure 10.2 Schematic outline of the general development of housing policy during the period 1945-90



policy of retrenchment, nor a switch from supply subsidies to demand subsidies. There are concrete plans, however, to reduce the level of government involvement in housing in the 1990s. Furthermore, it is evident that the various stages have not necessarily occurred successively. Housing policy in the Netherlands, for instance, can still be characterized in terms of the first stage of the model outlined above, while it is also evident that stages two and three have already commenced. In a number of other countries (the FRG and Denmark) the third stage started before housing policy began to emphasize explicitly the need for improvements to the quality of the housing stock. In a number of countries there have often been discontinuities during the third stage of the model. These are usually connected with changes of government or with changing economic circumstances. Thus in the Netherlands in the first half of the 1970s the Christian-Liberal coalition tried to deregulate housing. Their efforts failed, partly because of the emphasis in their housing policy on the implementation of a large-scale housing construction programme, and partly because a change of government led to the Social Democrats taking the place of the Liberals in the coalition and to changes in government policy.

Housing policy in the FRG has been characterized since the beginning of the 1960s by deregulation and a declining role for central government. In the first half of the 1970s, however, state involvement increased under a Social Democratic administration. After this, in 1975, partly as a result of cutbacks in public expenditure (necessitated by the first oil crisis), housing policy was increasingly directed to assisting specific groups by switching away from supply subsidies to demand subsidies. In England the Conservative government which came to power in 1970 reduced the level of grants to local authorities (which were responsible for most of the public rented housing stock). The Labour government which followed strengthened the role of local authorities and increased the level of central government support to enable an increase in the number of new housing completions. The economic crisis of the mid-1970s, however, forced the government to cut public expenditure significantly. These cuts continued and were intensified in the early years of the 1980s under a new Conservative administration.

As we have already suggested, the beginning and the possible end of the various stages in housing policy are determined, apart from by exogenous factors, by the role played by governments in general, and in the field of housing in particular, and consequently by the way in which they react to changing external factors (economic crisis, economic equilibrium). This is especially relevant for the second and, particularly, third stages. One might assume that governments with similar political ideologies would have reacted in similar ways to changing circumstances. This assumption is discussed in more detail later when the housing policies of the seven countries will again be reviewed.

To be able to determine the influence of political ideology it is firstly necessary to consider the political complexion of the various governments in power in the seven countries. For ease of comparison we shall make a distinction between those parties on the right and those on the left of the political

spectrum. Conservatives may be said to belong to the former, and Socialist, Communist and Social Democratic parties to the latter. The Christian Democrats (a powerful force in Belgium, the FRG, and the Netherlands) occupy, in general, a position in the middle of the political spectrum. Liberal parties defy easy categorization. For instance, the Liberal Party in the Netherlands is somewhat similar to the Conservative Party in England, while the Liberal Party in England can be located somewhat to the left of the political centre. One may also discern across countries substantial variations between parties which have the same broad political background. The Labour Party in England, for example, has advocated much more radical social and economic policies than, for example, the SPD in the FRG.

This analysis of the political complexion of governments enables us to ascertain whether the general characteristics that are often associated with the policies supported by various political groups do, in reality, correspond to the housing policies advocated by them, or whether ideology is a less significant determinant of housing policy.

It is often stated that parties to the right of the political spectrum favour a free market in which state involvement is limited. In the case of housing this means deregulation, support for the owner-occupied and private rented sectors, limited aid to the non-profit rented sector, and a role for the latter that is restricted to housing the weakest members of society. Subsidies are as limited as possible, should take the form mainly of demand subsidies, and the extensive supply subsidies given in the 1950s and 1960s to alleviate the housing shortage should be cut. There is a preference for the use of indirect tax subsidies to reduce the cost of home ownership. This serves to promote the form of tenure most ideologically preferred (the owner-occupied sector), and it also serves to benefit the interests of the electorally important middle and higher-income groups. The received wisdom is also that parties to the left of the political centre emphasize the responsibilities and functions of local and central government. As in the post-war period, the government considers itself responsible for alleviating housing shortages, and can be charged with realizing a more equitable distribution of the housing resources available. To this end, a general or non-profit rented sector that is accessible to large groups in society is an important instrument of social policy. The owner-occupied sector is not rejected, in principle, but the government tries to safeguard access to the owner-occupied sector for large groups of households. With respect to the private rented sector, however, there are serious reservations; many progressive parties consider it ideologically wrong for individuals to make a profit by renting out something which is a fundamental human necessity.

There are two principle methods of subsidizing housing: supply subsidies (to stimulate housing construction) and demand subsidies (to individuals in the form of income-related housing allowances or tax expenditures). Progressive parties are inclined not to favour the use of indirect tax subsidies, however, because these tend to benefit middle and higher-income groups rather than low-income groups.

On the basis of our description of the housing policies advocated by the most important political groupings, it will be useful to consider the political complexion of the various governments in the countries being reviewed in order to compare the housing policies they have introduced. We shall examine those cases where there is evidence to suggest that these policies have deviated from our typologies.

In most countries in the 1970s a government in which a social democratic or a socialist party was represented was in power. This is true of the FRG (1970-82), England (1974-79) Denmark (up to 1982), Sweden (up to 1976), Belgium (1970-74 and 1977-80) and the Netherlands (1973-77). In the case of Belgium and the Netherlands, the Christian Democrats have been in every government since the Second World War, and this has ensured a remarkable degree of continuity in policy. In this respect, France is an exceptional case. Giscard d'Estaing's centre-right government came into power in 1974, and in 1982 it was replaced by that of the socialist Pierre Mauroy. The housing policy advocated by the French government was strongly determined by the equilibrium in the housing market, and by the economic crises of 1973 and 1979. The developments begun as early as the 1960s, which saw a gradually diminishing role for the state in housing, continued in the 1970s with greater intensity. For the first time since the Second World War, the government officially announced that the provision of housing ought to be left as much as possible to the market and that the role of the government would in future be a residual one.

The *Nota Huur- en Subsidiebeleid*, presented to the Dutch Parliament in 1974 by the Social Democrat-Christian Democrat led coalition government, reflected the view characteristic of the 1970s of the capacity of governments to better society. The period saw the increasing involvement of central government in many aspects of social and economic life. More specifically, it was considered desirable for central government to take a greater role in the provision of housing. There were a number of motives behind this: the concept of housing as a "merit good" (a consumption good in which citizens ought to be encouraged to invest), and the desire to improve the environment, to ensure a more equitable distribution of resources, and to promote housing development.

After several years of debate, in *Huur- en Subsidiebeleid* the government opted for a hybrid system of supply and demand subsidies. Supply subsidies were used to try and ensure that new non-profit rented housing remained within the reach of those on average incomes. The government's subsidy policy was broader, however, than this. Subsidies were also provided for improving the residential environment, and to increase the range of choice available for all households, including those on low incomes. The latter aim led the government to introduce in 1975 a system of demand subsidies: the *Beschikking Individuele Huursubsidie* (a system of rent rebates).

The choice of a mixed subsidy system and the involvement of the government in assisting housing construction led to a rapid increase in expenditure on both supply and demand subsidies during the period 1975-85, both because of high

interest rates and because of the collapse of the owner-occupied sector.

The principal objective of the housing policy enacted by the Social Democrats in the FRG at the beginning of the 1970s was to enable each household to choose the sort of housing which corresponded to their desires and level of income. The rapidly expanding housing construction programme had to benefit the population as a whole rather than specific groups. There were also intense debates concerning the effects of land policy, and a considerable degree of protection for tenants was introduced. This policy ran counter to the policy of deregulation pursued by the Liberals and Christian Democrats in the 1960s. This radical change in housing policy lasted only five years however. Under the government of Chancellor Schmidt, housing policy once more underwent reform. The background to this was the oil crisis, which left the government with limited financial resources, and the rising costs of construction and numbers of vacant properties in the rented and owner-occupied sectors, which became a feature of the housing market after 1973.

The housing construction programme ceased to be aimed at the general population, and the emphasis was increasingly put on assisting the less well-off. Consequently, there was also a switch from supply subsidies to demand subsidies, and from new construction to subsidies for improvement.

As in the FRG, post-war housing policy in Belgium was strongly oriented towards encouraging private initiative. The government saw its role as one of providing incentives for the owner-occupied sector, providing rented housing for those households unable to buy their own home, assisting large families (this reflected the considerable influence of the Christian Democrats in government), and the demolition or improvement of poor-quality housing. This approach was embodied in an official "housing code" published in 1970. As with other countries in Western Europe, Belgium was affected by the first oil crisis in 1973. This crisis had severe repercussions for housing policy. The level of new construction decreased significantly, and for many households it now seemed impossible to become an owner-occupier. In order to ease these problems, a new loans scheme was introduced in 1975 in the non-profit rented sector. In the short term this scheme enabled a relatively large amount of rented housing to be constructed. In the long term, however, it led to higher levels of debt and consequent budgetary problems, and to a decline in the numbers of new dwellings constructed in the non-profit rented sector.

England, too, had a socialist government during the period 1974-79. At the beginning of the 1970s, however, the Conservatives were in power. The housing policy pursued by the Conservative government was similar to that of previous Conservative administrations (1951-64): it aimed to promote the private sector and to reduce the role of local authorities. The switch from programmes of slum clearance to improvement begun under the previous Labour government was continued. Against the background of a deteriorating economic climate, increasing interest rates, rising inflation and escalating balance of payments problems, a Labour government came to power in 1974. Its housing policy was characterized by a continued emphasis on the importance of housing improvement pro-

grammes, tenants were given greater protection, and the role of local authorities in housing was extended. The attitude of the Labour Party to the roles of the public rented sector and the owner-occupied sector was particularly significant. Even during the 1960s the construction of public rented housing was considered to be only a temporary solution to the housing problem. Owner-occupation was regarded as the normal form of tenure in the longer term. In 1967 the option mortgage and guarantee scheme was introduced to enable low-income groups to buy their own homes. Under this scheme house buyers who were ineligible for mortgage interest tax relief were able to get a mortgage at a lower rate of interest. During the 1970s, too, the Labour government was striving to expand the owner-occupied sector. In the 1977 discussion document entitled *Housing Policy* it was suggested that "owning one's own home is a basic and natural desire". This is not to suggest, however, that the Labour and Conservative governments advocated identical housing policies. On a number of issues, the level of government support for housing, the regulation of the housing market, and the powers allocated to local authorities, for instance, the policy of the Labour government was very different from that pursued by previous Conservative governments.

Like most other Scandinavian countries, Denmark was governed for the entire post-war period by a coalition led by the Social Democratic Party. Yet the housing policy pursued in Denmark may be considered unique among Scandinavian countries. As early as 1966 the Danish government introduced a series of proposals which, over a period of eight years (1966-74), aimed at reforming the housing market. The proposals were intended to bring about a deregulated and unsubsidized housing market, freed from government intervention, during this transition period. It was hoped that the effect of market forces would be to reduce the difference in rent levels between the private and the non-profit rented sectors. The proposals contained five elements: an increase in the level of rents, the reduction in levels of tax relief for owner-occupiers, reducing initial rents in the non-profit rented sector, the introduction of a system of rent rebates, and measures to limit the increase in construction costs. These objectives were not realized, however, largely because of economic difficulties.

In 1974, therefore, under the leadership of a Social Democrat coalition, a new compromise was reached. The objectives of the new proposals which emerged were the same as those in 1966: the reduction in the level of government subsidies and the deregulation of the housing market. One of the most important problems was the level of indirect subsidies being made available to the owner-occupied sector through the tax system. It was reckoned that, as a result of the levels of tax relief and the high marginal tax rates, these were twice as high as the level of direct subsidies being paid to the rented sector. Partly as a result of the high levels of indirect subsidies, the size of the owner-occupied sector had increased by the beginning of the 1980s and by then accounted for around 55% of the housing stock. Only with the reforms introduced in 1987 was this inequality reduced. In order to prevent the inequality between owner-occupiers and tenants increasing, the Danish government decided to increase

levels of rent rebates gradually until the mid-1980s. Because of the rising expenditure on rent rebates and the high level of tax expenditures, and despite the policy of deregulation advocated, Denmark has seen a continuously high level of state aid to housing over the past few decades (see Papa, 1991).

Direct state involvement in the rented sector is much less evident in Denmark than for instance in England. The concern to encourage private initiative and the development of the co-operative sector run as leitmotifs through government housing policy in Denmark and have resulted in the government playing only a modest role in the provision of housing, preferring to leave this to the co-operative sector and non-profit housing associations.

The housing policy pursued in Sweden during the 1970s has much in common with the housing policies pursued in the other Scandinavian countries (with the exception of Denmark). During the period 1965-74 an impressive housing construction programme, the "one million dwellings programme", was drawn up by the government and successfully completed. The success of this programme led to an excess supply of housing in some areas during the 1970s, for the first time since the 1940s. Until then there had been a serious housing shortage, and government policy had mainly been concerned to alleviate this. This reversal led in 1974 to the most fundamental reconsideration of housing policy in Sweden since the 1940s. The overall objective of housing policy had hitherto not been to force households into certain sectors of the housing market, but to enable them to have the maximum freedom of choice. Swedish housing policy in the 1970s had much in common therefore with that of the Netherlands, though in Sweden the principles underlying housing policy were formulated much more explicitly than in the Netherlands.

The principles underlying the policy reforms of 1974 can be summarized: that government assistance to the various sectors within the housing market should be equal, that there should be freedom of choice for households with regard to their housing situation, that housing allocation should reflect housing needs, that there should be a fair distribution of housing, and that social amenities and care facilities should be provided in residential areas. These principles were formulated in a number of guidelines. These maintained that a household on an average income should be able to afford to live in a modern dwelling without having recourse to subsidies from the state, the effect of subsidizing the various sectors of the housing market should not be to advantage one sector above another, price differentiation on the basis of quality must be possible, the rise in house prices in the owner-occupied sector caused by inflation should be countered, subsidies should be targeted on the weakest groups in society, and that housing beyond a certain quality should not be eligible for state aid.

On the basis of the housing policies implemented by the various socialist and social democratic dominated coalition governments during the 1970s, it is clear that there are cases where housing policy in practice runs counter to what we would expect on the basis of the typology outlined earlier. Only in Sweden, the Netherlands and the FRG prior to 1975 does housing policy tend to conform to

our typology. In all the other countries the development of housing policy was clearly affected by factors other than those which form the basis of our typology. These were largely external factors. Thus in almost all countries there was a housing surplus in particular sectors of the housing market, and almost all Western governments faced acute budgetary difficulties as a result of the oil crises of 1973 and 1979. Ideological considerations played a role too. For instance in Belgium, England, and, in practice, Denmark too, owner-occupation was considered to be the most desirable form of tenure even by the socialist and social democratic governments in power during this period. Consequently, the housing policy of these countries during the 1970s was characterized by support for owner-occupiers, a reduction in the level of supply subsidies, and an increase in the level of demand subsidies. In all these countries there was also a switch from programmes of new construction to maintenance and housing improvement.

In contrast to housing policies in the 1970s, housing policy in the 1980s was, for most part, formulated by Conservative governments or Conservative-led coalition governments. This was true in the FRG after 1983, Belgium between 1981 and 1988, England after 1979, Denmark after 1982, Sweden between 1976 and 1982, France after 1986, and the Netherlands almost continuously after 1977. The housing policies pursued in those countries during the 1980s are described below.

Only in France was there a socialist government in power at the beginning of the 1980s. In May 1981 a new Socialist-Communist government under the premiership of Mauroy came to power. A few months prior to this, François Mitterrand had been elected President. This change of government led to radical policy changes in many fields. Within scarcely a year a large number of reforms had been carried out; of these it was the decentralization of power and the nationalization of large enterprises and financial institutions which received the most attention. In spite of radical changes in a number of policies, there was a continuity in many aspects of the housing policy developed by the previous Liberal administration, and, excepting the period 1981-82, the new socialist government too pursued a policy of retrenchment. The underlying principles of the 1977 Housing Act, which aimed at reducing public expenditure and the size of the housing construction programme, were no longer adhered to however. Nevertheless, most of the objectives of the act were; rents were required to reflect market levels, there was a switch from supply subsidies to demand subsidies, and the government tried to expand the size of the owner-occupied sector (in particular by encouraging those on low incomes to become owner-occupiers), and to promote the improvement of the existing housing stock.

Deregulation of the housing market was begun only cautiously towards the end of the socialist government's period of office. It was continued at an accelerated pace in 1986 after the election of a Liberal government headed by Jacques Chirac. The crisis in the French housing market led to a new debate in parliament in the same year. Further steps were taken to deregulate the housing market; rent controls were relaxed, the sale of non-profit rented housing was

made easier, and the system of housing finance was reformed. Deregulation and support for the construction industry were accompanied, surprisingly, by considerable levels of public expenditure to increase housing construction in the private rented and owner-occupied sectors.

After the fall of the Den Uyl government in 1977 on the question of land policy, a new period in Dutch housing policy began. In the accord reached between the partners of the Christian-Liberal coalition government in 1978 a number of new policy objectives were outlined. There was agreement to promote owner-occupation (by, among other things, selling Housing Act dwellings), to give greater emphasis to limiting the costs of housing development, and the possible abolition of supply subsidies was even discussed. The government soon faced difficulties in realizing its most important policy objective, the promotion of owner-occupation, however, as a result of a number of external factors. After 1978, for instance, the owner-occupied sector stagnated after a period of significant expansion. At the beginning of the 1980s the owner-occupied sector collapsed completely and average house prices fell from f 198,800 in 1978 to f 138,100 in 1982.

Although the government had, in its Tweede Nota Bouwbeleid (Second Memorandum on Building Policy), denied that part of its function was to set building targets, pressure from parliament to assist the ailing construction industry resulted in the government doing precisely that, and within one year the housing construction programme had been revised no less than five times. The result was that the level of new construction in the non-profit rented sector increased rapidly, and the relationship between the construction of rented housing and that of owner-occupation was transformed. Despite the government's earlier intentions, it was the rented sector that benefited most from government assistance. Consequently, expenditure on supply subsidies increased considerably. Whereas in 1978 the housing programme had aimed to provide 32,000 subsidized rented homes and 74,000 owner-occupied dwellings, at the end of 1981 these figures were almost exactly reversed, at 73,000 and 34,000 respectively.

After an interim government under the premiership of van Agt, there followed a period of government with Lubbers as Prime Minister and Brokx as Minister of State for Housing. The policy programme published in 1983 contained many proposals to cut expenditure on housing. Again they related mainly to the rented sector, involving higher rents for new rented housing, reducing expenditure on rent rebates, and significant increases in rents for existing housing. Furthermore, the house building programme was cut to 102,000, and it was the non-profit rented sector particularly which took the brunt of these cuts. The owner-occupied sector benefited, not so much by extra subsidies but rather by the absence of the financial burdens introduced in the rented sector. The promotion of owner-occupation was, once again, one of the objectives of government policy. The new administration retained the mixed system of supply and demand subsidies. Within this policy framework, however, important changes were proposed in the building programme and the subsidy policy begun

under van Agt. These involved in part a degree of decentralization of responsibility for housing on to local authorities.

After 1982 government policy was also strongly oriented towards privatization. Efforts to maintain levels of housing construction led to serious budgetary problems, necessitated a limit to the number of new subsidized dwellings (in particular in the non-profit rented sector), and to an increase in the costs of housing (the 1980s was the period which saw the most rapid increases in housing costs in the Netherlands; see Table 2.10).

Van der Schaar (1987: 238) has noted with respect to the housing policy in the Netherlands during the 1970s and 1980s that it is striking to see to what extent political rhetoric was thwarted by developments in the housing market. The aim of the three progressive parties in government in 1973 was the construction of many cheap rented dwellings. In practice the results of government policy were quite different; it was the owner-occupied sector which prospered during this period. On the other hand, the Minister of State for Housing, Brokx, initially introduced a rather liberal programme of housing reform, aiming to promote owner-occupation and housing mobility. In the event he was forced to carry out a policy quite at odds with his original intentions.

As indicated earlier, in 1975 the Social Democratic government in the FRG introduced a liberal housing policy. After 1982 this policy was expanded vigorously by the coalition government of the Christian Democrats and Liberals. They believed that the provision of affordable housing for most of the population could best be left to the free market. Regional inequalities would have to be solved by the regions themselves. There was even serious consideration given in the mid-1980s to closing the Ministry of Housing. In 1982 the new government outlined its housing policy: access to the owner-occupied sector was to be made easier for more households, and state regulation of the housing market was to be limited. Its housing policy was market oriented, but the government relied on demand subsidies (*Wohngeld*) to protect those least well-off. In order to encourage owner-occupation, the building savings scheme was improved. Despite this, however, the promotion of owner-occupation had no great success in Germany. Moreover, since 1982, supply subsidies have been reduced and government financial assistance has increasingly taken the form of demand subsidies.

In conclusion, there was an important switch in emphasis in housing policy in the FRG between 1983 and 1989 to one which stressed the role of the free market and the decentralization of government responsibility for housing. This radical change of approach did not take place without problems. There were difficulties in selling houses in many regions, and problems, too, in the non-profit rented sector, where economic rents exceeded market rents; the population was ceasing to grow, there was a considerable disparity between the level of new construction costs and initial rents, real incomes were stagnating, unemployment was high, and there was general pessimism about the future. Partly on account of these developments, expected yields on private investment in construction were unattractive. The owner-occupied sector, too, experienced a

the housing market and make it more responsive to market forces. In practice, however, this did not occur. In housing, continuity with the past was much more in evidence than discontinuity. Indeed, government subsidies for housing increased from 8 billion kronor in 1975 to 26.7 billion kronor in 1982, and increased as a proportion of GNP from 2.7% in 1976 to 4.1% in 1982. This increase was mainly the result of increased expenditure on mortgage interest tax relief and other tax subsidies.

Real efforts to control public expenditure only took place in 1982, under a coalition government led by the Social Democrats. Under this government the growth in public expenditure was tempered and the proportion of GNP devoted to housing investment declined to 3.2%. Housing policy was again characterized by a commitment to the equal treatment of tenure groups within the housing market.

On the basis of the above, one may conclude that the housing policies implemented by the various conservative governments during the 1980s are somewhat at odds with the general description of conservative housing policy offered in the introduction to this section. In the cases of Sweden, the Netherlands and Belgium, the housing policies of the 1980s were in essence similar to those pursued during the 1970s (despite the intentions behind these policies being sometimes different). The pattern of public expenditure under conservative governments was more typical than untypical of that of their predecessors. In Denmark there was even a situation in which public expenditure on housing was increased. At the beginning of the 1980s, for instance, as in the Netherlands, new house building programmes were drawn up in response to the (international) crisis in the housing market and the subsequent decrease in the level of new construction. At the end of the 1980s a number of tax reforms were introduced along with measures to cut back public expenditure; these resulted in a serious crisis in the owner-occupied sector.

In Belgium, too, the housing policy objectives of the government remained fundamentally the same. The number of non-profit rented dwellings constructed decreased substantially, however, on account of attempts to control rising public expenditure (in which the cost of past subsidy commitments played a significant part).

Our general description of the housing policies of conservative governments is, to a certain extent, valid in the cases of France, England, and the FRG. In these countries there has been a general withdrawal by governments from the housing market and a greater emphasis placed on deregulation and market forces.

On the basis of our studies of housing policy in each of the seven countries over the last two decades it seems safe to conclude that the housing policies of both right of centre and of left of centre governments do not strongly correlate with the ideological stance of these governments. In general, of course, there are differences between the objectives and the policies of each political party within each of these countries. The differences in policy between political parties are

less marked, however, than the differences between countries. The conditions which prevail within countries, the housing traditions and the structure and characteristics of the housing market (the institutional structure), and electoral considerations (particularly in the case of coalition governments), for example, are much more important in determining the objectives of housing policy and the measures taken as part of that policy. In particular, housing traditions and the institutional structure of the housing market play an important role in this respect. In Belgium and England, for instance, the major political parties have long supported the promotion of owner-occupation. In the FRG the major political parties have attached great importance to the private sector for over forty years, while in Sweden and the Netherlands the non-profit rented sector has enjoyed the support of various coalition governments. The institutional structure of the housing market also appears largely to determine either the formulation of policy or its successful implementation. In some countries non-profit housing associations exercise a good deal of influence over the political decision-making process, either because Members of Parliament sometimes sit on their boards (as in France), or because there is close contact between the political parties and the housing associations, as there is between housing corporations and political parties in Sweden and between non-profit housing associations and parties in the Netherlands. Policies which run counter to the interests of these groups (such as the sale of non-profit rented housing) usually have little chance of success.

Furthermore, the housing market is also affected by market conditions and factors which lie outside government control, and it is therefore difficult for governments to regulate the housing market in the same way that they can with, for instance, education, defence, and health care. Housing policy is to a much greater extent influenced by more or less autonomous factors, such as the pattern of consumer expenditure and consumers' expected incomes, the level of interest rates, regional housing shortages or surpluses, or unexpected immigration flows. Moreover, housing policy, apart from aiming to realize specific housing objectives, is also partly determined by the government's overall economic policies. Thus the Netherlands, for instance, owed its economic prosperity during 1950s and the first half of the 1960s in part to a policy of wage restraint, and one factor making such a policy feasible was the implementation of stringent rent controls. In Denmark, where a Conservative-led coalition was in power, credit restrictions were introduced as part of a policy to control the national debt. The effect of this was to make it more difficult to buy a home.

Adriaansens and Priemus (1986: 46) concluded similarly in their study, too, when they argued that housing policy cannot be understood simply in terms of policy objectives, and that policy is in practice the result of a complicated interaction, a compromise, between market forces and government interests. It is clear that market forces are a significant factor in determining the pattern of housing policy, but also that there is some scope for the pursuit of purely political objectives.

It may be useful at this point to consider the distribution of the housing stock

Table 10.1 Housing tenure at the end of the 1980s

	Owner-occupied	Private rented	Non-profit rented	Co-operative sector	Other or unknown
Netherlands	44	12	44	-	0
FRG	42	42	16	-	-
France	54	20	17	-	9
Belgium ¹	59	31	7	-	3
England	68	8	24	-	-
Denmark	55	18	17	4	6
Sweden	43	21	21	15	-

¹ 1981

by tenure in the seven countries examined in this study. The data are presented in Table 10.1. There are clearly considerable differences between the size of tenure groups across countries. The owner-occupied sector has grown significantly since the 1970s, especially in England (68%), Belgium (59%) and Denmark (55-60%). This growth was less marked in the FRG (42%), Sweden (43%) and the Netherlands (44%). Those countries with a high proportion of owner-occupiers are precisely those countries which have promoted home ownership in the past and have spent considerable amounts on subsidizing that sector (through subsidizing lower interest rates, offering discounts to enable tenants to buy their homes, or through the tax system). On the other hand, Sweden and the Netherlands have supported the construction of new non-profit rented housing over the last few decades so that the relative growth of the owner-occupied sectors in these countries has been less impressive. This was not so for the FRG, and the size of the owner-occupied sector in the FRG can therefore be regarded as relatively small. One reason for this is that in the FRG house deposits are high relative to the total purchase price and therefore take longer to accumulate. Secondly, the loan repayment period is typically short (10 to 12 years). Furthermore, the average construction costs of a house in the FRG are high (DM 300,000 on average). The age at which households enter the owner-occupied sector is therefore much higher than in other countries, and once they become home owners they are much less likely to move.

As with the owner-occupied sector, the size of the private rented sector varies considerably between countries. In a number of them it is quite substantial: in Belgium, for instance, the private rented sector accounts for 31% of the total housing stock, in the FRG 42%, and in France 20%. It is smallest in the Netherlands (12%) and in England (8%). The size of the non-profit rented sector also varies between the FRG, France, England and Sweden from 16% to 24%. The Netherlands and Belgium form two extremes: the Netherlands has a large non-profit rented sector (43%) whereas in Belgium this sector has almost disappeared (7%). We should add, however, that the co-operative sector is fairly well-developed in Sweden (15%) and that this sector may reasonably be considered together with the non-profit rented sector (giving a total of 36%).

The co-operative sector is much smaller in Denmark (4%).

Perhaps more significant than the difference in size between sectors within the housing market are the different characteristics, functions, and user groups associated with these sectors. In most countries it is the relatively affluent households who are owner-occupiers, and the owner-occupied sector consists, in general, of comparatively expensive single-family dwellings and luxury apartments. England, however, is an obvious exception in this respect. As a result of the extensive sale of local authority housing during the 1980s, many low-income groups, too, have been able to buy into the owner-occupied sector; one result of this is the emergence of a clear differentiation in the quality of owner-occupied dwellings. Sweden is remarkable in that, by law, owner-occupied properties can only exist in the form of single-family dwellings. This has resulted in sharp differences between the rented and the owner-occupied sectors; the rented sector consists, in general, of multi-family housing, small in size and relatively cheap, whereas the owner-occupied sector consists exclusively of single-family housing and contains much of the best housing stock. Consequently, in spite of the principle of neutrality with respect to the various housing sectors, there is hardly a real choice for households in Sweden: large households with financial means have to rely almost exclusively on the owner-occupied sector, whereas small but less wealthy households can be served only in the rented sector. This leads, of course, to problems for those households which are both large and relatively less well-off.

The function of the private rented sector also varies between the countries under review. In the FRG the large private rented sector (42%) serves the broad strata of the population. As in France and the Netherlands, this sector is characterized by a considerable degree of internal differentiation with regard to both the level of rents, the facilities provided, and the extent to which properties are maintained.

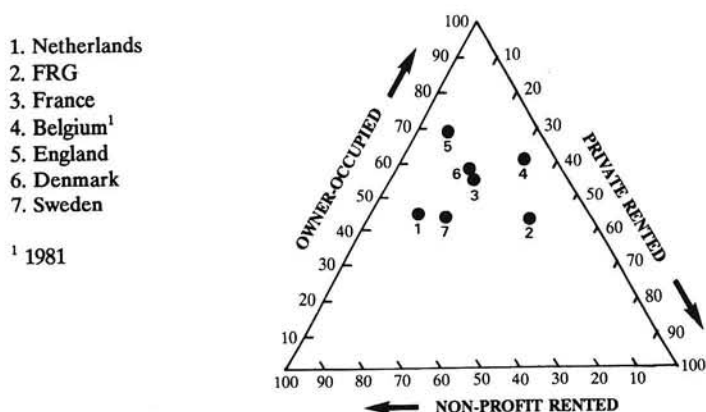
The private rented sector in Belgium serves a much narrower group within society. It is the most vulnerable groups that are forced to rely on private rented housing. They cannot afford to buy their own home, while the non-profit rented sector is usually out of their reach (there is no or little new construction, rents are high, some of the existing stock of non-profit rented housing has been sold, and the non-profit rented sector is in any case relatively small (accounting for only 7% of the total housing stock)). The private rented sector has declined significantly in England, Denmark and Sweden too, and it consists mainly of pre-1970 dwellings with a small living space and a relatively low level of amenities. It is only in Britain that efforts are being made to expand this sector of the housing market (without success so far, however). The private rented sector in England is characterized by the availability of much furnished accommodation that tends to be occupied by relatively young households; older households live mainly in single-family dwellings having few amenities.

As we have already noted, the non-profit rented sector, along with the private rented sector, is declining in importance in most countries. This decline and the rise in the direct costs of housing create specific problems in this sector of the

housing market. Firstly, the non-profit rented sector is being marginalized in many countries (especially in England, in Denmark and in France in the case of the poorer parts of the housing stock). The sale of non-profit rented housing (mainly in England and Belgium), which has led to the sale of the better parts of the housing stock, has reinforced this development. This process of marginalization has led to an undesirable relocation of certain socio-economic groups, to the deterioration in both the housing stock and the residential environment, and to problems in managing the housing stock in general. This development started in Denmark only after 1972. The role of the non-profit rented sector was considered, until then, to be to make rented accommodation accessible to the general population, to all income groups. After 1972 changes were introduced which made access to housing in this sector conditional on having an income below a specified level. Since then, low-income groups and the unemployed have been overrepresented in the non-profit rented sector in Denmark.

This marginalization has been most evident in those countries where the government has exercised a direct influence on the non-profit rented housing sector. In those countries (the Netherlands, Belgium, France, the FRG, and the co-operative sector in Sweden) where non-profit institutions (such as housing associations) are responsible for the provision of non-profit rented housing, this marginalization is a less significant feature. Here, however, one often faces the problem that many of the middle class and those on higher incomes live in relatively cheap non-profit rented housing, and that those less able to afford housing are therefore forced to turn to other sectors of the housing market (usually to the private rented sector) to find housing; furthermore, this housing may neither reflect their household situation nor satisfy their housing demands. For instance, because non-profit housing associations in France are not permitted to make an operating loss on their housing activities, they may refuse to let housing to tenants who in their view are not in a position to meet their financial

Figure 10.3 Distribution of the housing stock across tenure groups at the end of the 1980s



obligations in the long term. The fact that the non-profit institutions do not completely fulfil their primary task of providing housing for those on low incomes is considered to be a major problem by the government and has led to much political controversy.

The non-profit rented sector in the FRG is the one most at variance with the corresponding sectors in the other countries included in this study. Firstly, the construction and management of the housing stock is not exclusively entrusted to an approved institution. Commercial landlords, too, may rent out non-profit rented housing, and in practice they often avail themselves of this possibility. A second important difference is that the financing of construction in the non-profit rented sector in the FRG was almost completely privatized at the beginning of the 1970s, and expansion in this sector is now conditional on profit margins being sufficiently high. The result of this is that the operation of the non-profit rented housing sector is largely determined by economic considerations; the management of the housing stock reflects more an optimal economic use than a sense of social responsibility on the part of landlords.

In Belgium, too, the last few years have seen the introduction of alternative arrangements for financing housing construction in the non-profit rented sector, with the result that an important consideration is now that of obtaining a sufficient return on invested capital. The consequence of this is that access to non-profit rented housing will be more difficult for low-income groups in the future.

Figure 10.3 provides a schematic summary of the composition of the housing stock by tenure group. It shows fairly clearly in which countries the distribution of the housing stock is similar.

10.5 Housing policies in the 1990s: differences and similarities

We concluded in the previous section that the combination of different policy principles within each country and considerations partly exogenous and partly indigenous to housing, which have been influenced by changing conditions within each country over time, have led to a housing market that is unique within each country, a housing market with its own traditions and institutional structure. The consequence is that despite fairly similar policy objectives (such as the promotion of the owner-occupied sector), changing external factors - like alterations in the pattern of migration or economic conditions (interest rates, inflation, pressure on public expenditure) - can have a completely different impact on the functioning of the housing market. Without wanting to present an exhaustive list, it will be useful to describe a few of the differences and similarities in the problems facing housing in the 1990s.

As indicated in Figure 10.2, during the fourth stage in the development of the housing market, and after a period of equilibrium in the demand for and supply of housing, a quantitative or qualitative housing shortage had arisen in several countries by the end of the 1980s. Thus in the FRG, and to a lesser extent in

France, there is a clear excess demand for housing. The shortage in the FRG may increase further in the near future on account of the growing numbers of immigrants (400,000 Aussiedler migrated to the FRG in 1990). In France, in addition to a housing shortage there is, moreover, a serious problem concerning the affordability of rented housing. Rents in the private sector (which accounts for 20% of the total housing stock) have increased markedly in recent years because of the relaxation of rent controls, and even for those middle-income groups they have become almost unaffordable, while much rented housing in the non-profit rented sector is beyond the reach of low-income earners. And higher-income groups, too, are sometimes forced to move to cheaper accommodation. In other countries, like Denmark for instance, there has also been a sharp increase in demand for cheap rented housing. This is partly the result of the rising cost of owner-occupation, and partly of the measures taken by the government in 1986 and 1987 which have made access to the owner-occupied sector increasingly difficult for many households. The result of this is an increase in the number of vacant properties in the owner-occupied sector, and a distinct lengthening in waiting lists for non-profit rented housing.

Another remarkable phenomenon in many of the countries in this study is the strong variation in demand for housing, both at the regional level and at the more local level. The greatest differences can be noticed in England, where there is an excess supply of housing in the North and a crippling shortage in the South-east. Many landlords in the prosperous South-east of England have seen the value of their properties increase sharply over a short period, whereas households in comparable dwellings in the North have been faced with falls in the value of their property and have been unable to sell their houses and look for work in other areas of the country. Apart from regional differences in the demand for housing, there has also been a growing divergence between the metropolis and the rest of the country. In cities like Paris, London and Munich, prices have increased more rapidly and housing shortages are more severe than in other parts of the country. In London this has led to serious tensions in the labour market. Many companies settling in London have difficulty in attracting unskilled and semiskilled labour from other regions because it has become almost impossible for these workers to find affordable housing at a reasonable distance from their place of employment. In such cases employers themselves are forced to provide financial assistance. This practice, which has existed in France for many decades, may perhaps be imitated in more countries. Enterprises with more than ten workers in France are obliged to spend the equivalent of 0.67% of their total salary costs on housing construction.

In smaller countries, too, regional differences are increasingly evident, though they are less important than in France, England and the FRG. To solve these regional housing shortages it is no longer sufficient to resort to national-level policies, as was done during the 1950s and 1960s, but to implement specific local solutions. Because of the considerable costs involved, the decentralization of authority necessary to do this often (despite many promises) involves an uphill struggle.

Because of the decline in the house purchase market and because of the strong regional variations that exist in the countries included in this study, it is possible that there are vacancies in some parts of the housing stock (in particular in badly situated post-war high-rise blocks), whereas in other parts of the housing market there are growing shortages. During the first half of the 1980s all countries were faced with decaying and vacant properties in parts of the post-war housing stock. England and France particularly were and still are the hardest hit in this respect. The problem of vacancies decreased in other countries as a result of an increasing shortage of housing in the second half of the 1980s. In addition to demolition (which is mainly relevant in the case of England), one solution for most countries is to take a comprehensive approach in which, in addition to the dwelling itself, the residential environment, the level of amenities provided, education and social problems are tackled (this approach is particularly evident in France and increasingly too in the Netherlands).

Without really abandoning the policy objectives of preceding periods (which aimed at improving the quality of the existing housing stock, problems of distribution, efficiency and the level of public expenditure), increasing the number of new dwellings constructed has once again become an important policy objective. In some countries, like the FRG and France, this has led directly to increases in public expenditure and specific programmes to promote new house building. The obvious housing shortages and the difficulties in finding affordable housing, which affect both the rented and the owner-occupied sectors, are to a great extent decisive in determining political priorities in the field of housing. For instance, in the Netherlands, Sweden and Belgium during the 1980s less attention was paid by politicians and by the general public to housing. This is in contrast to France and the FRG. In these countries housing is one of the paramount issues of the day. And in England and Denmark more and more public attention has been focused on housing in the last few years. In Denmark the main reason for this has been the crisis in the owner-occupied housing market and the scandals which have come to light concerning the financing of house purchases.

Apart from the re-emergence of a general housing shortage or of shortages in some specific sectors of the housing market, there were also a number of other problems common to the countries examined in this study. A few of these are considered below.

One general problem has been the increase in housing costs during the 1980s (see Chapter 2). This led to problems particularly for the weakest groups in society. The increase was the result of the fact that during the last few decades governments have tried to make housing more responsive to market forces (there has been an erosion of tenants' rights, a relaxation of rent controls, and reductions in levels of government assistance), the function and the degree of access to non-profit rented housing have been substantially curtailed in most countries, the costs of new construction have increased, and that real incomes have stagnated on account of high rates of unemployment. More limited access

to non-profit rented housing has forced many to look to the qualitatively poorer private rented sector; the number of those homeless has risen, as has the number of households in short-term bed-and-breakfast accommodation (in France, England and Belgium particularly). On the other hand, the problem of rising housing costs is not one which affects only low-income groups. In both England and France (countries with large owner-occupied sectors), for instance, there has been a serious crisis in the house purchase market during the last two years. Households that bought property in the mid-1980s are currently faced with problems in repaying their mortgages, and significant numbers have had their homes repossessed. The origins of the crises in these two countries are different, and the reader is referred to the appropriate country chapters for a more detailed discussion of these.

The decline in the level of new housing completions in the non-profit rented sector and the increase in direct housing costs have given rise to specific problems in many countries. Firstly, there occurred a marginalization of the non-profit rented sector in a number of countries (in particular in England, Denmark and in France in the case of the poorer parts of the housing stock; see section 10.4). In those countries where non-profit institutions (such as housing associations) are responsible for the provision of non-profit rented housing, this marginalization has so far been largely prevented. Here, however, one often faces the problem that many of the middle class and those on higher incomes live in relatively cheap non-profit rented housing and that those less able to afford housing are therefore forced to turn to other sectors of the housing market (usually to the private rented sector) to find housing; furthermore, the housing they obtain may neither reflect their household situation nor satisfy their housing demands. That is why in some countries, like the Netherlands, France, the FRG, and Sweden, consideration is being given to measures to reduce the skewed distribution of the housing stock. In the FRG this has resulted in plans to increase rent taxes in the 1990s. This measure had already been implemented on a limited scale during the 1980s, and is considered by the Federal government to be an efficient weapon in housing policy. In other countries, like France, the Netherlands and Denmark, the government tries to influence the housing allocation policies of housing associations etc. In France there is currently considerable controversy between the HLM and the government on precisely this issue.

Another problem in many countries concerns the development of the owner-occupied sector. This sector has at best been stagnating since the 1980s, and there is even some evidence of decline. In is only in England, and to a lesser degree in France, that the growth in home ownership has continued. Here growth was the result of cutbacks in levels of housing construction in the public rented sector (and the targeting of public rented housing on specific groups), the transfer of more than 1.6 million local authority dwellings to the owner-occupied sector (at considerable financial cost to the state), and the introduction of the option mortgage and guarantee scheme, by which house buyers on low incomes were able to profit more from tax relief. For the British government there is

now the problem of how to enhance an owner-occupied sector that is already large. This problem is all the more difficult since many home owners currently face serious problems repaying their mortgage because of the high level of interest rates. There is a comparable crisis in the owner-occupied sector in Denmark. In this country, too, the increase in the size of the owner-occupied sector has already been considerable.

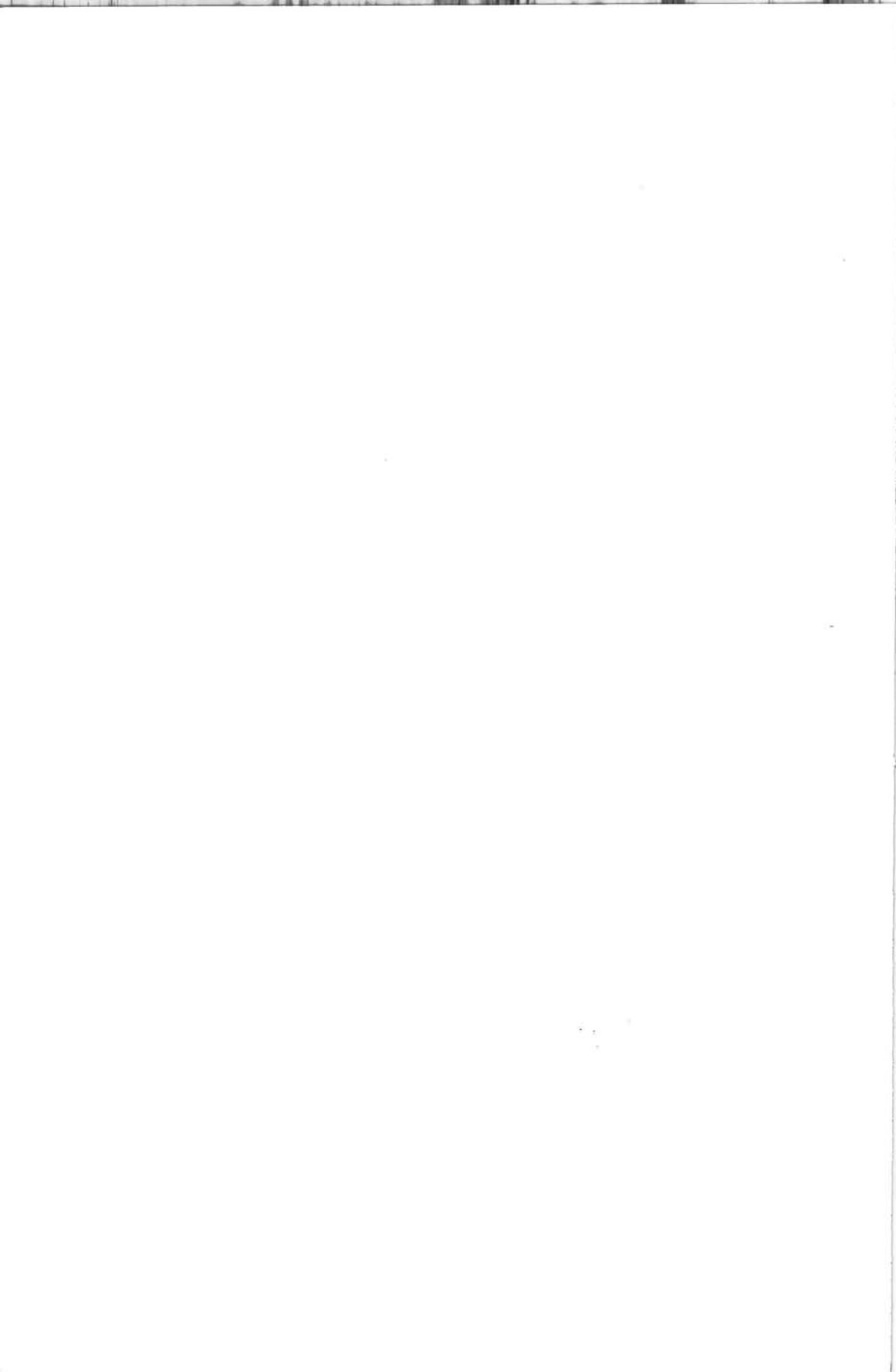
Despite the fact that the owner-occupied sector is stagnating or even decreasing, in almost all the countries included in this study (the exception being Sweden) expanding the owner-occupied sector is considered to be one of the most important objectives of housing policy. The fact that this sector is still stagnating in spite of government policy may be ascribed to two important factors: significant increases in house prices, and reduced access for lower and middle-income groups. Although at the beginning of the 1980s house prices had declined slightly in almost all countries, the trend over the last two decades has been one of considerably increasing house prices. It has therefore become more and more difficult for first-time buyers to purchase. A second problem is the fact that many of those on middle and higher incomes have already bought a house. An expansion in owner-occupation therefore depends on lower, and to a lesser extent middle, income groups becoming home owners. Housing policy and the tax system are not (yet), however, geared to this development. In particular, mortgage interest tax relief (one of the few regressive indirect tax expenditures) and rent rebates (which are progressive in their effect on income distribution) may be considered important restrictions in this respect. This situation applies most obviously to the Netherlands. It is the only country in which the level of mortgage interest tax relief is not limited, while demand subsidies (which are high both in terms of their level and reach) are only available to the rented sector.

In many countries measures have been taken in the past few years, or are being considered, to modify this situation. For instance, mortgage interest tax relief has been limited in many countries (such as England), or abolished (FRG), and in some countries (Denmark and France) the amount of relief is now related to the income level of the mortgagee. Alternative incentives have, of course, been introduced in many countries. Examples are the tax relief available on older properties and the *Kindergeld* in the FRG, the building savings schemes (the FRG and France), interest rate subsidies (Sweden), discounts for those tenants buying their council house (England), and - in more general terms - the provision of specific supply subsidies to encourage the construction of cheap owner-occupied housing. Moreover, in most countries owner-occupiers are also eligible for demand subsidies (Belgium, the Netherlands and Denmark are exceptions here).

To conclude this study we shall make a few provisional remarks relating to the discussion concerning the convergence and the divergence of the various housing markets which was described in the introductory chapter. A more authoritative consideration must await the publication of the results of the companion studies

to this project. On the basis of the present analyses of the general framework of housing policy and of the problems which characterize the housing markets studied, it can be stated, however, that there are a number of similar factors affecting the functioning of the housing markets in these countries. They include both exogenous factors, like demographic and economic development, and policy objectives (promotion of owner-occupied housing, reduction of public expenditure, and the switch from supply to demand subsidies). Furthermore, it appears from our analyses of the housing policies of the seven countries that it was particularly difficult for governments to dictate housing market conditions. In their study Adriaansens and Priemus (1986: 46) concluded that housing policy cannot be understood simply in terms of policy objectives, and that policy is in practice the result of a complicated interaction, a compromise, between market forces and government interests. Clearly, market forces are a significant factor in determining the pattern of housing policy, but it is also clear that there is some scope for the pursuit of purely political objectives.

In spite of the similarities between housing policies and between housing markets, there is no convincing evidence to suggest that the characteristics and the problems associated with housing systems in the countries under review are tending to converge. Housing market structures, which are the product of a series of historical developments unique to each country, the institutions that have been established in the course of time, and the activities of government, which are influenced partly by tradition and by ideology, are much too diverse for this to be a credible supposition. Though external factors and policy objectives are fairly similar in general, they have led to specific and often unique problems within each country.



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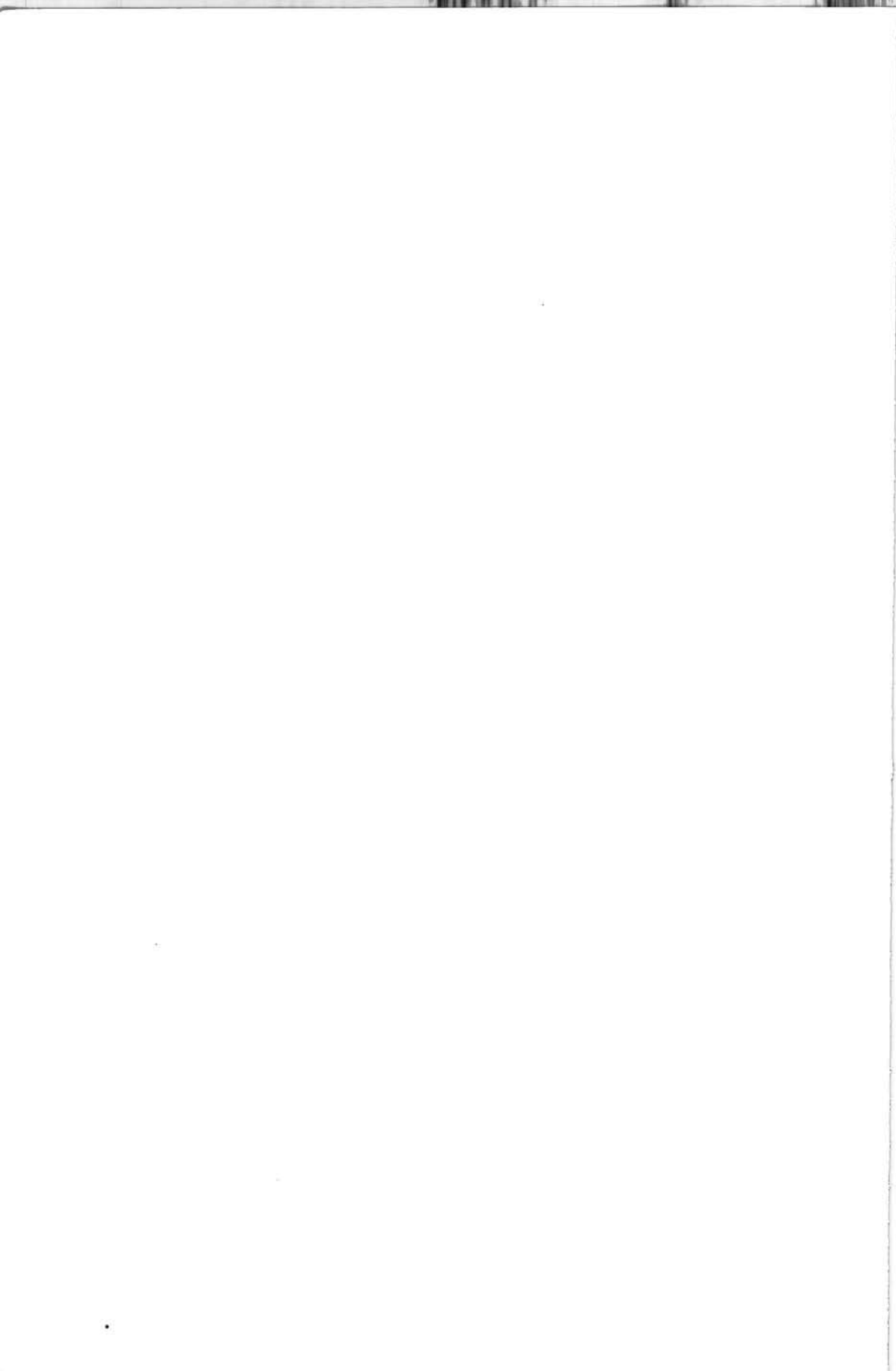
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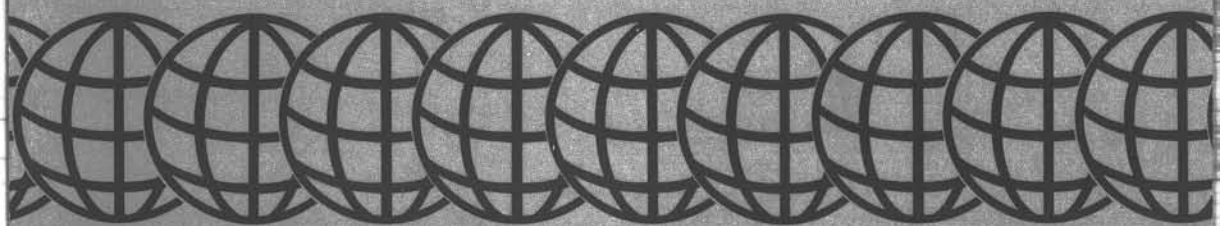
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