

HUGO PRIEMUS, Ed.

WHO WILL PAY
THE HOUSING BILL
IN THE EIGHTIES?

International Federation
for Housing and Planning



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**INTERNATIONAL
FEDERATION
FOR HOUSING AND
PLANNING (IFHP)**

WHO WILL PAY THE HOUSING BILL IN THE EIGHTIES?

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(editors)*

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INTRODUCTION

In Western Europe the prospects for the Eighties are far from cheerful: widespread unemployment, an increasing call on social benefit, incomes and trading profits at a standstill, disappointing tax yields, steadily increasing pressure on the government to reconsider and restrict public expenditure, a large financial deficit and a high interest rate. The combination of these factors is particularly disadvantageous to housing. The high interest rate forces up housing costs. Only very extensive subsidies could safeguard occupants against this rise in housing costs, but the resources for such additional expenditure are absent from the national budget. An increase in housing costs for the occupants is being advocated with ever-growing vigour. However, in view of the unfavourable development of purchasing power too sharp an increase in housing costs could lead to a drop in the effective demand for new construction. A contraction of the building volume - as may be observed in many countries of Western Europe - does lighten the burden on the government, but also creates overcapacity on the building market. A large number of bankruptcies of construction firms and their suppliers, together with rapidly growing unemployment in and around the construction industry, is the result. A development of this kind can hardly be regarded as economic recovery, towards which government policy everywhere is claimed to be directed.

The IFHP Congress in Oslo has as its theme "Equal opportunities in urban life". It therefore features something that does not exist. For there are differences in income and income expectations and differences in power, and as a result there are unequal opportunities in the city, as we know. On the one hand there are great differences between households in financial capacity, on the other there are great qualitative differences in the housing stock. Some of the stock, particularly the new part of it, is financially beyond the reach of households with a low income. In relation to the differences in rent and purchase price we see selection and allocation criteria that are used by different kinds of urban managers and which often augment the differences in accessibility of the housing stock.

Via housing costs policy the opportunities for home-seekers to acquire the kind of dwelling they desire can be influenced. After all, the rent or the price of

a dwelling is not a natural phenomenon. The government can influence or even set rents and prices, give subsidies, levy taxes or grant fiscal facilities by which the costs for the occupants differ from the level that would prevail on a free market. The government can place such measures in the framework of a housing costs policy, that can be directed towards goals inside and outside housing policy, such as:

- reducing the labour costs of industrial and other products in order to strengthen the international competitive position;
- curbing inflation;
- promoting employment by maintaining a sufficiently large production of new dwellings, or maintaining or improving the existing stock;
- reducing the housing shortage by attaining an adequate production of new dwellings;
- encouraging mobility on the housing market by eliminating discontinuity in the pattern of rents and prices;
- futhering an effective use of the housing stock and combating vacancies;
- securing a minimum level of housing for the lowest-paid categories;
- increasing the choice on the housing market, also for the lower-paid groups, inter alia between the alternatives "buy" and "rent".

Depending on the goals pursued and the priorities adhered to in so doing, housing costs policy will be equipped with instruments in a certain way. The situation on the housing market (is there a general shortage, a surplus or a broad equilibrium?), the economic situation (is there a prospect of economic growth or standstill?) and the demographic outlook are of great importance here.

During this workshop the central question is "who will pay the housing bill?"

This question is elucidated by means of contribution from three countries; the Netherlands, the USA and Switzerland. The Netherlands is a country where the stagnating economy is now making itself felt but where the government continues - as yet - to uphold the furtherance of housing via many subsidies for rented and owner-occupied housing and numerous measures. In the USA, where stress has fallen more on fiscal policy and the promotion of home ownership, the economic depression has let to a considerable reduction of Federal concern with housing policy. It is the question whether one may speak of a housing costs policy here. Finally, Switzerland has a relatively favourable economy with low unemployment. True, the interest rate has risen here (to 6%), but it is still considerable lower than in the Netherlands, where the interest rate is broadly twice as high (12%) and the USA, where in 1982, an interest rate of some 18% prevailed: three time as high.

The workshop - and also this publication - has the following set-up. In chapter 2 Van Fulpen will go into the distributional aspects of financial aid from the authorities in the Netherlands: who profits a lot and who profits little? Van der Schaar will consider the development of housing costs of tenants and owners in the Netherlands since 1950, both in the stock and in new construction (chapter 3). In chapter 4 Van Fulpen will deal with some aspects of the housing

costs concept, indicating the relation between macro-housing costs and the thinning of families. Priemus will outline the prospects of a housing costs policy in which the relation to ability to pay is established more intensively than is usual (chapter 5).

Next for discussion is a paper by Hetzel in which the current housing policy of the Reagan Administration is analysed (chapter 6).

In chapter 7 Woolery will give a short survey of the significance of fiscal policy in the USA to housing policy.

In chapter 8 Ischi will give us an impression of the current problems with the financing of subsidized housebuilding in the Swiss canton of Geneva. Finally in chapter 9 De Kam will establish links between the role of tenants and the development of housing costs policy. A short overview of the discussion and final conclusions is given in chapter 10.

The housing costs problem has many aspects:

- budgetary problems of the *government*: which costs can and must the government bear?
- too high housing costs of many low incomes *tenants*: how can their problems be solved?
- too high housing costs of many *owner-occupiers* with low and medium incomes: how can their problems be solved?

In addition the final position of the *landlords* (both profit and non-profit) must be borne in mind.

Housing costs may be connected with the quality of the residential situation (including the size of dwelling), the interest rate at the time of purchase or completion of the dwelling, the scarcity on the housing market, fiscal policy and the ability to pay of the occupants. During this workshop we consider above all the question of which possibilities are seen for the realization of the ability-to-pay principle for tenants and owner-occupiers in housing costs policy. What does the ability-to-pay principle imply for management and distribution of the stock and the financing in housing? What is the prospect before us and how can the final goal be brought closer by? Precisely in a stagnating economy, in which the government cannot subsidize all round and by no means everyone needs financial aid, realignment to the ability-to-pay principle in housing seems more pressing than ever.

THE DISTRIBUTION OF HOUSING SUBSIDIES OVER INCOME GROUPS, EMPIRICAL AND NORMATIVE.

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2.1. Introduction

In 1975 the Social and Cultural Planning Office (SCP) embarked on a study of the distributive effects which can be related to the individual use of public goods and services. In 1977 a pilot study appeared in this context, giving an outline of government income and expenditure in the field of education and housing. The results concerned the calendar year 1975. The study "Profijt van de Overheid in 1977" (Benefit from government expenditure in 1977) is a continuation and an amplification.¹) The aim of the study is to give a complete picture of the distribution of all government income and expenditure for the calendar year 1977.

The study is based on the assumption that the prosperity of an individual or a household does not depend solely on the amount of income from work or capital (primary income, factor income), or the income which results after the receipt of social security benefits and the payment of taxes and social security contributions (secondary income), but is also determined by the extent to which use is made of public goods and services (tertiary income). Table 1 shows the relations between these income concepts.

Table 1: Relation primary-tertiary income

(1)	<i>primary income</i> : factor income, pre-fiscal income	
+	social security benefits in cash	
-	taxes paid on the <i>sources</i> -side of income (income taxes, etc.)	
-	social security contributions	
=		
(2)	<i>secondary income</i>	
+	benefits tied to the use of publicly provided or subsidized goods or services	(tertiary income components)
-	taxes levied on the <i>use</i> -side of income (sales-tax, etc.)	
=		
(3)	<i>tertiary income</i>	

Public services are made available to the population by the government free of charge or at (heavily) subsidized prices. The use of such a service implies a transfer from the government to the user, not in freely disposable money-income, but in the form of a portion of tied income. The fact that the income transfer is not freely disposable is characteristic of the tertiary sphere. The value which is represented by the use of a public service is a problem in itself. As an approximation this value is identified with the expenditure incurred by the government for the service in question. Thus in concreto the government expenditure connected with public services is attributed to the users. In combination

with secondary incomes it is then possible to draw a picture of the tertiary distribution of income: the distribution of the freely disposable income, augmented with the value of the use of the public services. Apart from government expenditure there is also government income attached to the use of goods and services, such as a number of taxes in the field of the housing and other taxes such as value added tax and excise duties. These payments by the user to the government may be considered as negative components of tertiary income.

The importance of the tertiary sphere can be indicated by pointing to the share in the total government expenditure. More than 80% of the total government expenditure (85 milliard guilders) can be considered to the tertiary income for households. Of the expenditure on social security (52 milliard guilders), 33% is to be accounted as tertiary income for households. The remaining expenditure results in primary income components (interest on the national debt), secondary components (gratious income transfers) or income for enterprises. Of the total of 85 milliard guilders on tertiary expenditure nearly half (39 milliard guilders) is studied in this project with regard to the distributive effects. The remaining (tertiary) expenditure concerns above all purely public goods and services of which the consumption is non-rival (civil service, defence, public works) and investment outlays and cannot generally be attributed to individual households. On the income side (total 131 milliard guilders) 41 milliard guilders may be considered as tertiary, 31 milliard guilders of which were attributed to individual users.

Table 2: Attributed expenditure and income per sector, The Netherlands, 1977.

sector	expenditure (milliard guilders)	income (milliard guilders)	balance (milliard guilders)
<i>Expenditure schemes</i>	38.1	8.3	29.9
– housing	3.9	—	3.9
– education	19.2	0.1	19.1
– public transport	1.5	—	1.5
– social services	1.2	—	1.2
– culture, recreation	2.4	0.6	1.9
– public health	9.5	7.6	1.9
– other expenditure	0.4	—	0.4
<i>Income schemes</i>	—	22.2	22.2
– housing taxes	—	1.9	1.9
– sales taxes, etc.	—	10.3	20.3
<i>Total</i>	38.1	30.5	

"Profijt van de overheid in 1977" is restricted to the first round impact incidence of government expenditure and income, just like most other studies on fiscal burden and benefit. Tax shifting or benefit snatching has been neglected.

Table 2 gives per sector all expenditure and income, the distribution of which is described in the study.

In this paper we shall only go into the distribution of government income and expenditure in the field of housing.

2.2. Theoretical background

2.2.1. Tertiary income

Tertiary income is (see also table 1) built up out of primary components (income from work or wealth), secondary components (untied transfers from and to the government or social insurance) and tertiary components (tied transfers from and to the government or social insurance). Whether a transfer is to be qualified as tied or untied depends on the question as to whether the transfer is tied to the use of particular goods and services. The demarcation between the secondary and tertiary sphere of income is based on the difference in the economic effects caused by government measures. The government measures which lead to tertiary income have not only income effects, but also substitution effects on the spending of the income. The common factor in the tertiary income components is that goods and services are involved: these are either made available or subsidized by the government (positive income components) or tax is levied on them (negative income components). It is not always easy to determine what should be qualified as tertiary in this sense. For example: the AWBZ-contribution (Exceptional Medical Expenses (compensation) Act) had better be regarded as an untied tax. The contribution for compulsory health insurance on the other hand had better be seen as a price (reimbursement) for the insurance package.

The value of the income component which results from the use of a service subsidized by the government is set at the cost price per unit of the service, less the user's own contribution. This cost price may be an overestimation or an underestimation of the cost price which there would be without government involvement in the production.

However, the value which is thus attributed to the individual user may differ from the value which the user attaches to the subsidy, since the subsidy is not freely disposable. The difference between these values is an expression of the extent to which collective rating exceeds individual rating. The cost price per use-unit could not always be determined exactly, so that in those cases

rough indications had to suffice. Further no account has been taken of differentiation in production nor with secondary effects of the use of services.

Expenditures on investment has been excluded from the distribution analysis because these lead to an increase in the stock of capital goods. The profit resulting herefrom covers a period of years. The notion of investment has been broadly interpreted: capital burdens, depreciation, interest, redemptions, but also the purchases made by museums.

Moreover, it was not possible for all the services to determine the (correct) investment element in the amount spent and eliminate it from the amount. As well as ordinary government expenditure there is tax expenditure which leads to positive tertiary income components: positive "receipts" for the households as a result of a deviation from the "normal" taxation structure. An example of this is the underestimation of the imputed rent of owner-occupied dwellings for taxation purposes.

Government income tied to goods and services results from indirect taxation and a limited number of direct taxes. Of the total government income some 40% can be qualified as tertiary; about 80% of this is attributed.

2.2.2. Distribution of secondary income

Tertiary income elements are attributed to households characteristic by their secondary income. This income is calculated on the basis of data derived from the Housing Needs Survey 1977 (WBO77). The average secondary income for 1977 has been calculated at 24.500 guilders. Of the total amount of secondary incomes almost half is earned by the households in the three highest income deciles. From tabel 3 it can be seen that the increase in the average secondary income between the 2nd and the 8th decile is relatively constant. From the 8th decile upwards the average income rises considerably.

In order to determine the income deciles under which those in receipt of a minimum or modal income are classified, it is necessary to define a specific

Table 3: Secondary income, The Netherlands, 1977.

	deciles										
share in %	1	2	3	4	5	6	7	8	9	10	total
average	3,2	5,6	6,8	8,0	9,0	9,9	11,0	12,3	14,4	19,8	100%
(x fl 1000)	7,9	13,6	16,7	19,6	22,0	24,3	26,9	30,2	35,3	48,4	24,5
Lowest decile unit (x fl 1000)	0	11,3	15,2	18,2	20,9	23,1	25,5	28,4	32,3	39,1	—

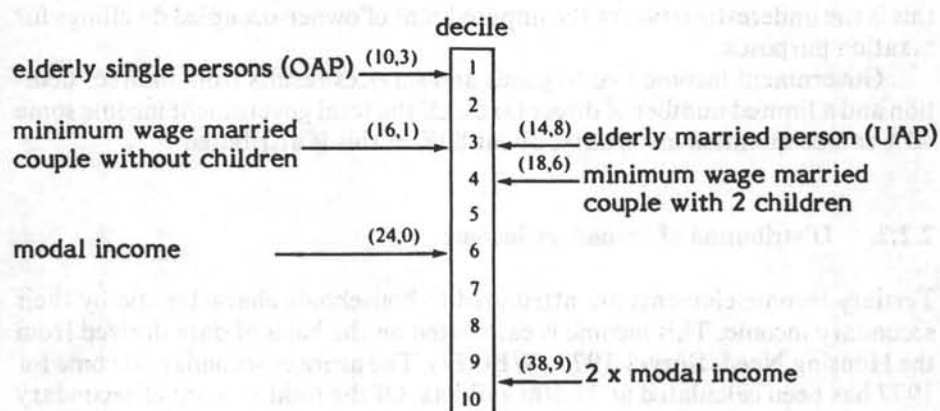
Source: WBO77 (b): as processed by SCP

household. The household used here consists of a married couple with 2 children under 16, where the man of the woman receives income from wages. This household with a minimum earned income (of a 23-year old or older) can be placed in the 4th decile. Similar households with a modal earned income are to be found in the 6th decile. If the modal income were to be doubled, a household would just come under the 10th decile.

Figure 1 shows the position of a number of typical categories.

The average secondary income is shown in brackets; this is calculated on the basis of the WBO77 (x fl.1000).²

Fig. 1. *Position of a number of typical income earners, The Netherlands, 1977.*



2.3. Distribution of housing subsidies over secondary income deciles

2.3.1. Introduction

In this chapter 10 financial schemes will be examined with regard to their distributive aspects. Hardly any of the schemes are applicable in both the rented and the owner-occupied sector. This means that the distribution of a particular scheme is determined in the first instance by the rent/owner occupation ratio in each decile. This ratio can be expressed as follows:

Table 4: Owner occupation and income decile, The Netherlands, 1977

decile no.	1	2	3	4	5	6	7	8	9	10	total
% owner-occupied dwellings	29	19	29	34	34	34	41	47	51	65	41

Thus the number of owner-occupied dwellings increases the higher the decile number becomes.

Not all items of expenditure in the budget of the Ministry of Housing and Physical Planning have been attributed to individual households. Expenditure of an investment nature or in the collective sphere has not been included (see also 2.2.1.). The most important items which are thus omitted are the loans for public finance, so called Housing-Act-Dwellings and the expenditure on infrastructure and urban renewal. A number of other items could not be attributed since no data were available on their use. Moreover, there are some measures concerning housing and houses which do not find financial expression in the budget of the Ministry of Housing and Physical Planning. Property tax and property transfer tax do not appear in the budget of the Ministry of Housing. The benefit enjoyed by owner-occupiers on account of the imputed rent being set at too low a level does not appear in the budget either, nor does the loss of interest incurred by the municipalities in financing the construction of Housing-Act-dwellings.

However, this is all expenditure/income which is connected with the dwelling and comes under the notion tertiary income. Table 5 shows how government expenditure/income is distributed over the income deciles. A brief account will be given of some characteristics of each scheme (see page 12).

2.3.2. Rent allowances

Tenants, who pay too much rent related to their income, are entitled to receive rent allowances from public funds. The norm for the housing costs is set at 11% for those with a minimum income and 17% for those with a modal income. If the tenants are paying more, then the difference, either wholly or partly, is made up by the government. In 1981 17% of all tenants received this rent allowance and for the tenants of newly built dwellings it even amounted to 50%. It is expected that the number will rise rapidly in the near future.

Of the fl. 408 million, which could be attributed to individual households in 1977, nearly three quarters went to the households in the three lowest deciles. Almost 50% of those concerned are elderly people over 65 years of age.

2.3.3. Rent acclimatisation grants

The object of this scheme differs from that of the rent allowances. Whereas the rent allowance is intended to prevent too great a proportion of income spent on housing, the rent acclimatisation grant stimulates the spending of a greater part of the income on housing.

Tenants, who move from a cheap dwelling to an expensive one, are reimbursed over a period of some 4 years for part of the difference in rent; the sum received decreasing each year. About 65.000 tenants receive this grant.

Table 5: Distribution of government housing expenditure and secondary income deciles in the Netherlands, 1977
(million guilders)

	deciles										
	Total	1	2	3	4	5	6	7	8	9	10
1. Rent allowances	408	112	110	73	39	30	12	13	5	4	6
2. Rent acclimatisation grant	39	3	4	8	2	5	6	6	4	1	0
3. Building and exploitation costs subsidies rented dwellings	1515	173	164	108	145	151	178	154	165	128	149
4. Government aid to owner-occu- piers	222	4	7	9	17	23	32	26	34	44	26
5. Insulation subsidy	21	—	1	0	2	2	2	3	3	4	4
6. Imputed rent	1468	14	38	62	69	92	126	161	203	272	431
7. 'Excessive' deduction of interest for owner-occupiers	148	1	11	32	10	11	12	10	24	14	23
8. Property transfer tax	- 824	-29	-10	-29	- 44	- 46	- 82	- 78	-116	-141	-248
9. Property tax	-1113	-94	-91	-88	-100	-106	-108	-116	-123	-133	-153
10. Loss of interest on Housing -Act dwellings	136	19	16	21	21	15	15	11	10	6	2
Sum of all expenditure	3957	326	351	313	305	329	383	384	448	473	641
margin of uncertainty		27	27	24	24	27	39	29	33	35	40
distribution over deciles (%)	100	8,2	8,8	7,9	7,7	8,3	9,6	9,7	11,3	11,9	16,2
Sum of all receipts	-1937	-123	-101	-117	-144	-152	-190	-194	-239	-274	-401
margin of uncertainty		2	11	18	42	23	32	33	39	44	63
distribution over deciles (%)	100	6,4	5,2	6,0	7,4	7,8	9,8	10,0	12,3	14,1	20,7
Balance of all income & expenditure	2020	203	250	196	161	177	193	190	209	199	240
margin of uncertainty		36	29	30	30	32	33	38	42	47	56
distribution over deciles (%)	100	10,0	12,4	9,7	8,0	8,7	9,6	9,4	10,3	9,9	11,9

The social characteristics of the recipients of this subsidy are different from those of the recipients of rent allowance. Whereas the source of income in the case of the rent allowance recipients was only 23% wages or salary, for the recipients of the rent acclimatisation grant it amounted to 61%. The number of people over 65 was proportionately less: from 40% to 18%. The same phenomenon is to be observed in the composition of the household: for the rent allowance only 20% were married couples with children, for the rent acclimatisation grant it amounted to nearly 60%. The fl. 39 million which could be attributed appeared to be distributed fairly evenly over the deciles. Only the two highest deciles receive appreciably less than the average.

2.3.4 Building and exploitation costs subsidies for rented dwellings

The volume of this category of expenditure represents the biggest scheme in the Ministry's budget. The subsidy is allocated in order to stimulate the building of cheap rented dwellings. According to the system there is an annually diminishing subsidy for dwellings built before 1975. The annual rent increase ensures that the proprietor's receipts remain stable. Dwellings built after 1975 are subsidised according to a system whereby the dynamic cost price is the determining factor. By taking future rent increases into account, it is possible to set the initial cost price rent a lower level, so that the initial subsidy can also be less. One of the consequences of this system is, however, that the subsidy cannot be gradually reduced, but has to be continued for the entire period during which the dwelling is rented in order to bridge the gap between the rent asked and the cost price rent. A building and exploitation costs subsidy is given for some 1.3 million rented dwellings. Due to the dynamic financing and other factors the expenditure will increase sharply in the next few years.

Of the total amount of fl. 1515 million to be attributed, 2/3 goes to Housing-Act-dwellings and 1/3 to the private rented housing. The households in the two lowest deciles receive a fairly large amount of subsidy; this applies especially to the elderly (probably those living in heavenly subsidised dwellings for the elderly). The third decile receives considerably less. From the third decile onwards the amount of subsidy increases again and reaches its peak in the sixth decile. Thereafter the amount of subsidy decreases, partly because of the growth in the number of owner-occupiers in the highest deciles.

2.3.5. Government aid to owner-occupiers

Since the Fifties there has been government aid for buyers of newly constructed dwellings. In order to be eligible for a subsidy these owner-occupied dwellings have to conform to a number of qualitative and price criteria. Since 1968 these subsidies have been so arranged that especially in the first few years after the purchase has been made financial burdens are reduced. The starting subsidy decreases by 10% each year.

About 400.000 owner-occupiers are subsidised in this way.

The premiums which the owner-occupiers receive annually if they are living in a subsidised dwelling are subject to income tax. Thus only the net premium is attributed. In 1977 this amounted to fl. 222 million. It appears that the lowest incomes scarcely benefit from the scheme at all. The four lowest deciles only receive 16% of the premiums. Thereafter the amount rises per decile to fl. 44 million in the 9th decile. The last decile receives less as a result of the fact that this group buys more houses in the unsubsidised sector and if they buy indeed subsidised dwellings, then it is presumably a case of the more expensive housing, which is less heavily subsidised.

2.3.6. Insulation grants

For some years the government has been subsidising the costs of carrying out insulation work. In 1977 the subsidy amounted to 2/7 of the costs with a subsidisable maximum of fl. 3.000. The aim is to insulate 200.000 dwellings per annum over a period of 12,5 years. However, in 1979 the number of subsidies allocated already amounted to 380.000. The higher income deciles appear to receive slightly more than the lower deciles.

2.3.7. Imputed rent benefit

The income of all owner-occupiers (1.8 million households) is determined in such way that it is financially favourable to them. According to law the imputed rent is fixed at a maximum of 1.3% of the value of the occupied dwelling; in all probability this percentage is too low to indicate the actual value derived from living in the dwelling. The difference between the tax (and social insurance contributions), which would be paid in the event of a more realistically determined imputed rent, and the tax paid under the present system, is known as imputed rent benefit.

In the context of the Budget Survey 1978, carried out by the Central Office of Statistics, estate agents were asked to estimate the rental yield of owner-occupied dwellings, the market value of which had been quoted by the owner-occupier. The rental yield was to be calculated as though it applied to a rented dwelling. It appeared from this survey that this rent came to 3.2% of the value of the occupied dwelling. This sum would represent the gross rental yield for the lessor, from which he would still have to pay maintenance, real charges and depreciation. These items are calculated at 40% of the gross rent, which means that the realistic net rentable value can be set at 1.9% (value of unoccupied dwelling). Thus the percentage of the value for the occupied dwelling (60% of the value unoccupied) comes to 3.2%. The imputed rent benefit can then be calculated at $3.2 - 1.3 = 1.9\%$ of the value of the unoccupied dwelling. This calculation shows that the total government tax expenditure resulting from the

imputed rent amounts to fl. 1468 million. Distribution over the deciles gives a clear picture: the higher incomes receives the lion's share.

2.3.8. "Excessive" deduction of interest for owner-occupiers

The tax authorities view the dwelling as a source of wealth, which can at some point be expected to produce a positive yield. The costs of financing this source, i.e. the interest charges on a mortgage, may be seen as the acquisition costs of the source of income. The positive yield only occurs if the interest charges do not exceed the realistic rentable value. If they *are* in excess, then it is no longer a question of acquisition costs, but the interest charges, which exceed the realistic rentable value (here referred to as "excessive" deduction of interest), are viewed as a normal tax expenditure resulting from entering into a personal obligation.

It is really only in the case of dwellings, for which there is *never* a positive balance between rentable value and interest deduction, that there can be said to be excessive deduction of interest. In order to take this long-term effect into account in the principal variant in the report the definition of excessive interest is made dependent on the number of years that a person has occupied a dwelling. If someone has resided in a dwelling for less than 4 years, then the interest is only termed excessive if it is more than 3 times as great as the rentable value. Between 4 and 10 years the factor is set at 2 and if a person has occupied the dwelling for more than 10 years, then all interest which exceeds the rentable value is regarded as excessive. The tax expenditure, which is involved in this excessive interest rebate, is calculated at fl. 148 million, which benefits 137.000 households. There are two peaks in the distribution. One in the 3 highest deciles and one in the third decile. The latter appears to be caused by a concentration of self-employed persons in this decile. This group accounts for a fairly high average amount of "excess" interest.

2.3.9. Property transfer tax

The government imposes a tax on the sale of property (real estate) amounting to 6% (in 1977: 5%) of the selling price. This item of income has risen considerably for the government over the last few years as a result of the rising price of property and the rising number of transactions. In 1975 the yield was 597 million, whereas in 1979 it had mounted to 1825 million. Those who have recently bought second hand dwellings are the people who pay this tax (about 100,000 households per year). The distribution shows a very clear picture: it is principally the higher income groups which pay this tax.

2.3.10. Property tax

Occupiers and owners of real estate pay the local authority a certain sum in property tax. The owner-occupier receives two tax demands: one for the owner and one for the occupier. The tenant only receives a tax demand in his role as occupier. The tax demand of the owner is also paid by the tenant, but this takes place via the rent. The tariff is expressed as a percentage of the value of the dwelling. The total amount produced in property tax by all occupiers is calculated at £ 1113 million. The distribution by deciles shows that the yield increases the higher the decile number.

2.3.11. Loss of interest on Housing Act dwellings 1948-1957.

During the period from 1948 up to and including 1957 the municipalities themselves acquired capital on the capital market and lent the money to the housing associations. The conditions on which the municipalities supplied the loans did not always fit in with the possibilities of running housing act schemes. The result was a financial burden for the municipalities. In 1977 the burden of interest for the municipalities amounted £ 136 million for some 270.000 dwellings. The occupiers of these dwellings, which were "too cheaply" financed, are those who derive the benefit. They appear in particular to be those whose incomes fall in the bottom half of the income distribution.

2.3.12. Cumulation of all schemes

Figure 2 gives a picture of the total government income and expenditure. Government expenditure is split up into expenditure in the rented sector and expenditure in the owner-occupied sector. Government income cannot be split up in this way since the property tax comes from both sectors. The expenditure for the tenant appears to be above average in the first two deciles. This is due to the rent allowances and the building subsidy (housing for the elderly). The amounts for the deciles 3 up to and including 8 are about average and for the two highest deciles below average.

A quite different picture is to be seen in the owner-occupied sector. The higher the decile number the greater the amount of government expenditure on the occupants.

This distribution is mainly determined by the imputed rent benefit. The distribution of government income shows that the occupant's burden grows as his income increases.

On balance the distribution even out. There are only two deciles which receive relatively much: the second and the tenth decile.

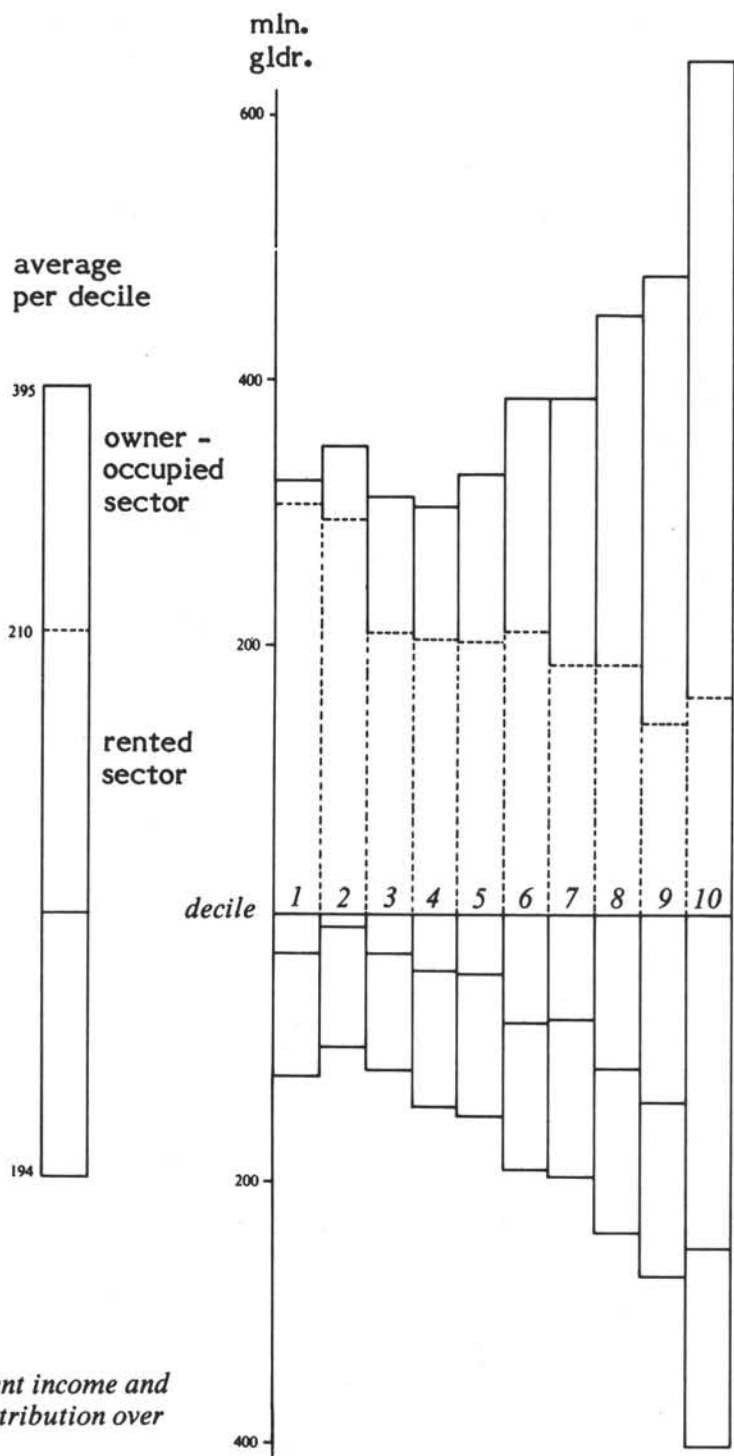


Fig. 2.
 Total government income and
 expenditure distribution over
 deciles 1977.

2.4. Normative distribution of housing subsidies over secondary income deciles

2.4.1. Introduction³

It is absolutely unjust to allow a household to acquire a tertiary income element via the housing sector. After all, a person who is in the position of having an independent dwelling is already privileged; and he even receives a grant for it as well. Those who have no independent dwelling, but have to be satisfied with sharing someone else's house or living in a boarding house or a caravan do not receive anything for their deprivation. Can anything be more unjust? Yes! The amount of the subsidy can be differentiated according to the degree of comfort in which a person lives. People occupying new and luxurious dwellings could be given higher grants than the occupants of slum dwellings. This height of injustice appears surprisingly enough to tally with the actual situation.

What conclusion should be drawn from this finding? Firstly: do away with all the existing tied subsidies in the housing sector and instead subsidise people renting rooms in other people's houses, lodgers, caravan dwellings and tax those who are well housed. The result is a just distribution of subsidies in the housing sector. The misery of not having an independent dwelling or being badly housed is thus made good with the taxes levied on those who have the benefit of an independent or luxurious dwelling.

The second conclusion is that ideas on distribution norms in the tertiary sphere are only in their infancy. This second conclusion will be illustrated in this chapter by means of the formulation of seven norms for the distribution of subsidies in the tertiary sphere of the housing sector.

2.4.2. Norms dependent on views on the functioning of the housing market

The most important characteristic of the housing market is that almost all housing services are offered in the existing housing stock. Newly constructed dwellings add 2% to this per annum. Moreover, as far as this (housing) stock market is concerned, the cost price of the most recently added units is much higher than that of the units in the stock. If the government plans to promote the consumption of housing services for one or another reason (merit?, external effects?), then it will have to subsidise these latter units in particular.

This observation is not sufficient to lead to a distribution norm over households. As yet no answer has been given to the question of who should occupy the newly constructed dwellings. This answer is to a great extent dependent on the views held on the functioning of the housing market. If housing mobility is seen as a phenomenon whereby filtering ultimately leads to an improvement in the housing situation of those with the lowest incomes (these people are often also

those with the worst housing conditions), then it is obvious that the higher income groups should occupy the subsidized newly constructed dwellings. Only those at the modal income level and above would be eligible for a subsidized dwelling, whereby the subsidy would not have to be all that high on account of the spending scope of the new occupants. The subsidy should, however, be higher for more expensive housing. Based on this view of the housing market the distribution norm could be expressed as follows:

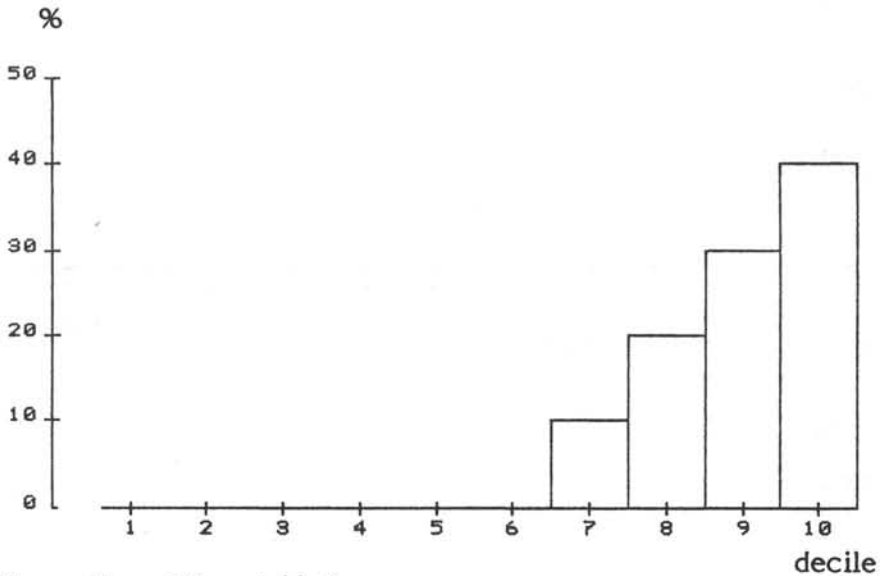


Fig. 3. Norm 1 from table 6.

However, if filtering is condemned as a phenomenon which stimulates housing consumption amongst the higher income groups but which does not greatly benefit the lowest incomes (the vacancy chains terminate sooner because new groups with a strong position come into the housing market), then it should be the people with the lowest incomes who occupy the subsidized newly built dwellings. There should then be a higher subsidy per dwelling. The norm could be shown as follows (see figure 4 on page 20).

In actual fact present housing policy subscribes to both views. According to the government it is not a question of either/or, but of both/and. Efforts are made to stimulate the construction of housing in the owner-occupied sector by means of grants and tax facilities. The filtering argument plays an important role in these subsidies. On the other hand the government considers that adhering too closely to this policy does not adequately help the lowest income groups. Thus subsidies are also given for dwellings in urban renewal areas and for housing for the elderly. Furthermore, people from the lowest income brackets, who have not been successful in obtaining a cheap older dwelling and have to move into

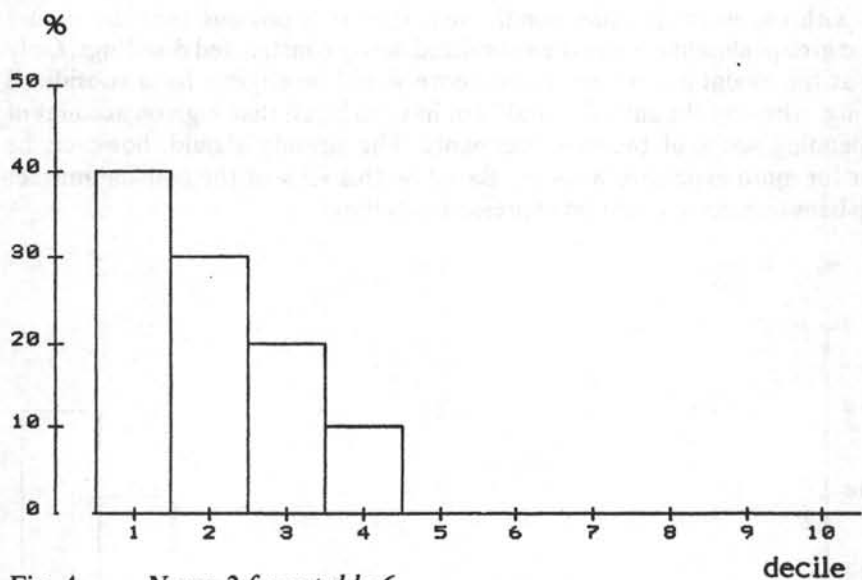


Fig. 4. *Norm 2 from table 6.*

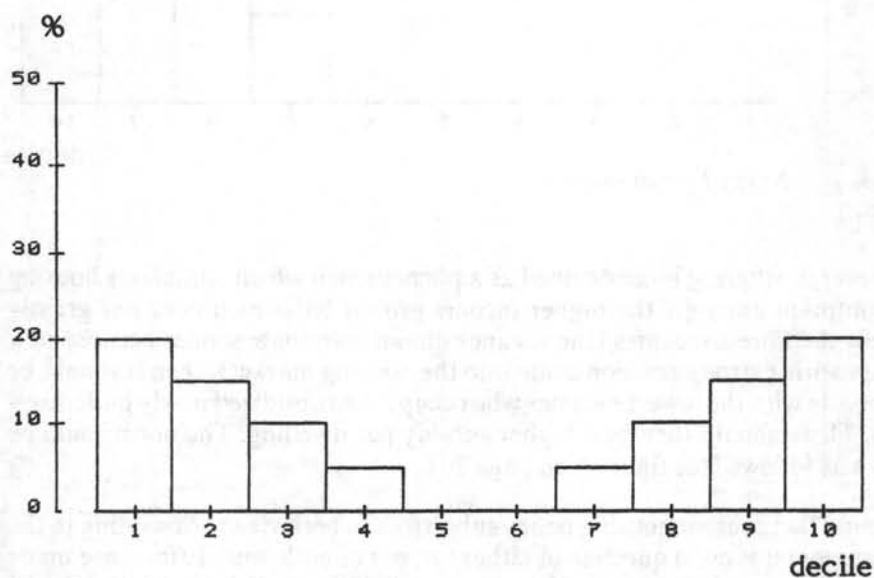


Fig. 5. *Norm 3 from table 6.*

more expensive housing, receive a subsidy in the form of rent allowance. In this way the government may transform the norms into a u-shaped norm.

Comparison with the actual distribution (see table 6) shows that this composite norm of the government has too perfect a u-curve to coincide with the actual distribution, which exhibits a much more flattered curve. The relative peak in the second decile forms one side of the u, whilst the other side is formed by the rise in the expenditure after the third decile up to the absolute peak in the 10th decile.

It must, however, be remarked that in reality there is scarcely any dip in the distribution: the two "peaks" only jump out slightly above the mean.

Table 6: Norms for and the actual distribution of government subsidies in the housing sector, by various views of the functioning of the housing market.

Norm	Total	decile									
		1	2	3	4	5	6	7	8	9	10
1. Filtering norm (%)	100	0	0	0	0	0	0	10	20	20	40
2. Building-for-poor norm (%)	100	40	30	20	10	0	0	0	0	0	0
3. Mean norm for 1 and 2 (%)	100	20	15	10	5	0	0	5	10	15	20
4. Actual distribution in The Netherlands	100	10	12	10	8	9	10	9	10	10	12

The basic idea in this description of norms and actual distributions is that above all new housing construction must be stimulated by subsidies.

However, if housing is seen as a social service (though with a high contribution from the recipient himself in the form of rent or the burden of ownership), whereby the receipt of a subsidy depends principally on the extent to which a person needs housing and the extent to which a person can bear the costs himself, then other distribution norms are also possible.

2.4.3. Norms dependent on the need of housing and the financial capacity⁴

The first conclusion in section 2.4.1. suggested a just distribution norm: subsidise the non-participants and tax those who are wellhoused. The distribution norm would be shown as follows. In contrast to the first three norms the following norms are derived from empirical data.

On the analogy of Priemus (1978) this norm could be called the perfect compensatory norm. A person's income position in the secondary sphere, and thus the power he has on the housing market, is completely levelled out as far as

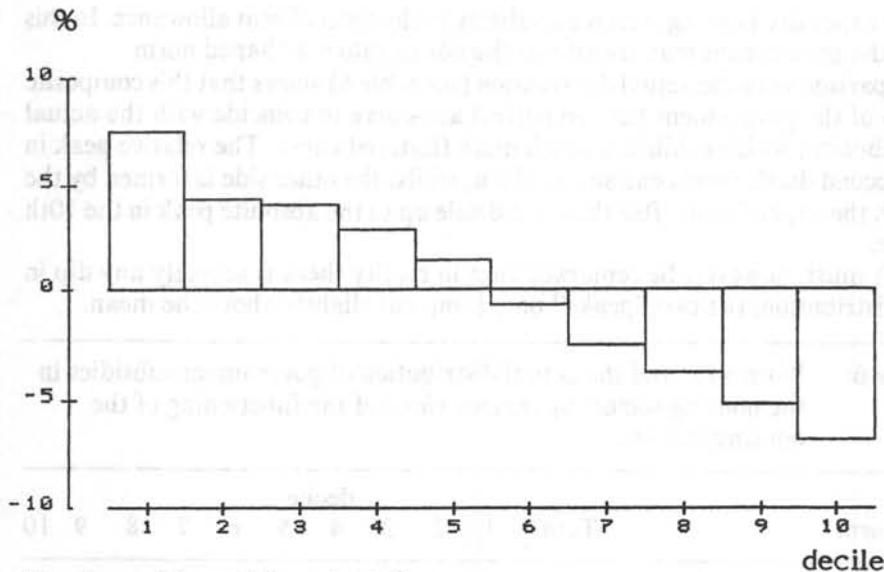


Fig. 6. Norm 1 from table 7.

action in the housing field is concerned. Thus income is no longer a determining factor in the housing situation. If you want better housing, then you receive less subsidy, or you are more heavily taxed, in order to compensate for the extra pleasure derived. Application of this norm in every sector of government policy means that the distribution of secondary income becomes totally irrelevant for the consumption of government services and that the "welfare distribution" of these services is entirely uniform. It is not at present clear what form of society this norm would fit into. At any rate it may be imagined that this norm is not everybody's ideal. A rather more moderate form is the distribution norm whereby every household receives an equal amount. This would seem to call for a redistribution in the secondary sphere. After all, if every household is to receive an equal amount of subsidy, then the link with the housing sector would only represent a circuitous route. If the government's objective of a certain minimum number of dwellings of a minimum quality could then be realised is very much open to question. In spite of this comment, this norm can of course be defended. It can be represented as follows (figure 7).

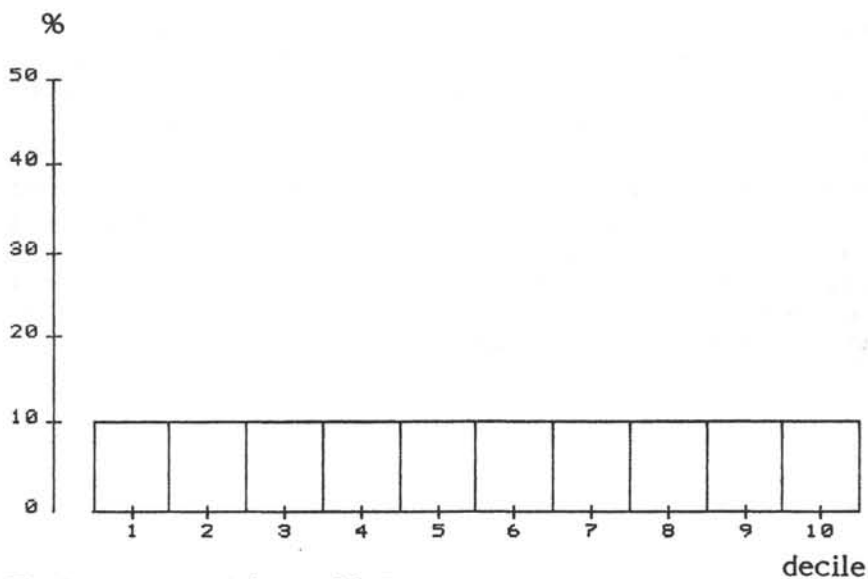


Fig. 7. *Norm 2 from table 7.*

However, not every household is in need of housing. Not all young people want to have an independent dwelling. If a correction is made for these factors, the norm can be shown as follows:

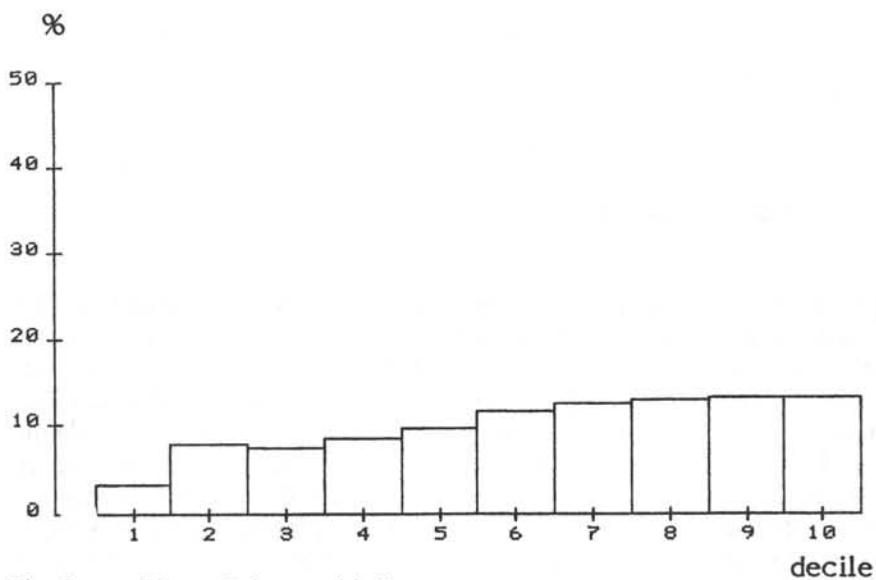


Fig. 8. *Norm 3 from table 7.*

This latter norm introduces the need factor - whether or not a household has a need. According to this norm you have need of independent living accommodation or you have not. In actual fact, however, a great part of the need depends on the size of the household. A household consisting of 4 people needs more living accommodation than a single person. The relation between the size of the household and the need of living accommodation is not straightforward in the sense that a household consisting of 4 people would need 4 times as much living accommodation as a single person. For example, both households need only *one* kitchen and *one* bathroom/shower. The need norm is calculated on the basis that the number of persons per household plus one equals the number of rooms needed. If the distribution norm is corrected for the differentiated need, the following picture emerges:

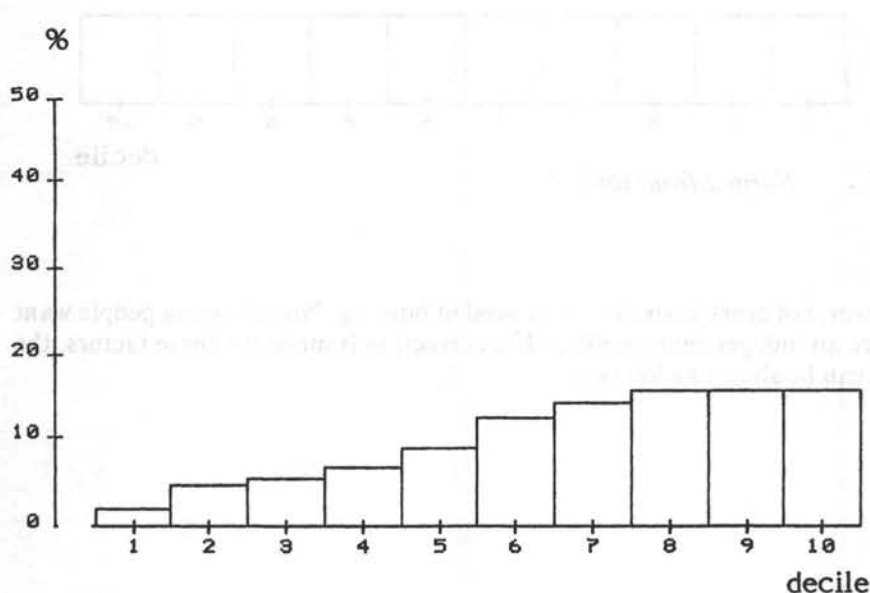


Fig. 9. Norm 4 from table 7.

Is it possible for the government to adhere to this norm if its objective is that every household, depending on its need, should consume or benefit equally from the quasi-collective goods? This is only possible if there is a very strict distribution policy for dwellings. In practice, however, a certain degree of regulation occurs, but the chief characteristic of the market is still that people themselves look for the most desirable dwelling. The household income plays a major role here in the final choice. Nevertheless, as a result of differences in income, and thus of differences in the marginal use of money, the higher incomes are in a position to consume more subsidized living services in real terms and thus acquire a higher tertiary income. If the government considers this undesirable and does not consider it possible to operate a strict distribution of living accom-

Table 7: Distribution norms for government subsidies in the housing sector dependent on various need criteria.

Norm	Total	decile									
		1	2	3	4	5	6	7	8	9	10
1	100	7,4	4,3	4,1	2,9	1,4	-0,7	-2,5	-3,8	-5,2	-6,8
2	100	10	10	10	10	10	10	10	10	10	10
3	100	3,3	7,8	7,5	8,6	9,7	11,6	12,4	12,9	13,1	13,1
4	100	1,9	4,6	5,3	6,5	8,7	12,2	14,1	15,6	15,6	15,6

- 1) Perfect compensatory norm (%)
- 2) Equal amount for each household (%)
- 3) Equal amount for each household in need of a dwelling (%)
- 4) Equal amount for each household in need of a dwelling according to the need ratio (%)

Source: Housing Needs Survey '77, processed by SCP

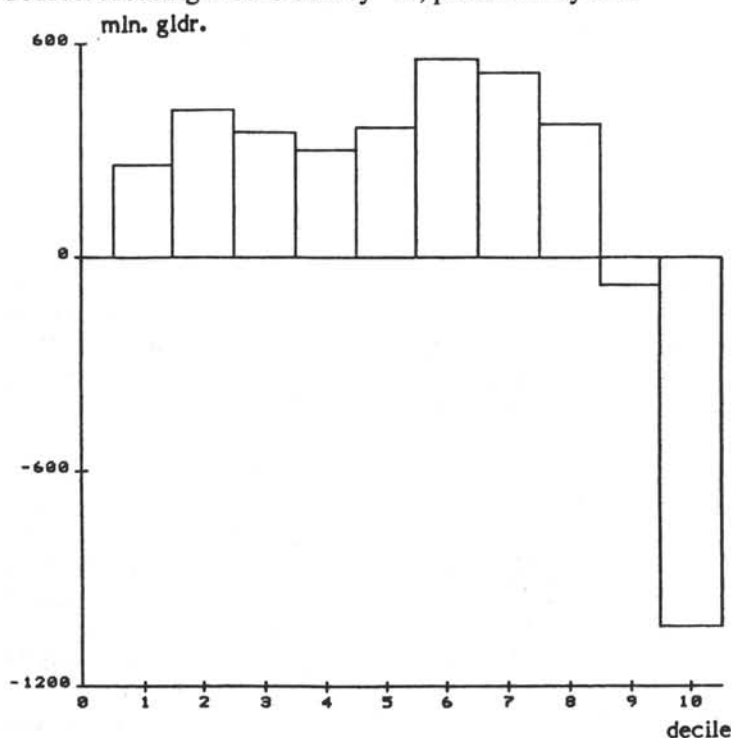


Fig. 10. Distribution norm; equal amount for each household in need of a dwelling according to the need ratio and according to ability-to-pay.

modation, then the only remaining instrument with which to realise the desired distribution is to introduce income prices. By obligating the higher incomes to pay more per consumption unit it is possible to prevent these households from benefitting from government services more than they should on the grounds of their (objectively determined) needs.

A number of factors must be taken into account in working out the income price in concrete: the decrease in the marginal use of money in the case of the higher incomes, the extent of the subsidies with regard to the cost price and the differences in needs per household already mentioned above. In a follow-up study to "Profijt van de overheid in 1977" (Benefits from government expenditure in 1977) such an income price has been quantified and thereafter converted into a distribution norm. The result is shown in fig. 10. This norm is very similar to the compensatory norm mentioned at the beginning of the section. The only difference is that a need element has been added.

Compared to the present distribution the higher incomes would have to pay much more, even up to 138% of the cost price in the highest decile. For the first decile 20% of the cost price would be charged. In actual fact this now averages 88% for everybody, but with only slight variance. Only with this sharply calculated income price is it possible to ensure that the higher incomes do not make more use of government services than the lower incomes.

2.5. Conclusion and summary

This paper gives an account of an enquiry into the distributive aspects of government policy. The enquiry concentrated on the distribution of subsidies and tax-expenditures, which are indirectly received by households when they make use of all sorts of (subsidized) government services: tertiary income. The study examined all sectors of government services, but this paper has dealt exclusively with the housing sector.

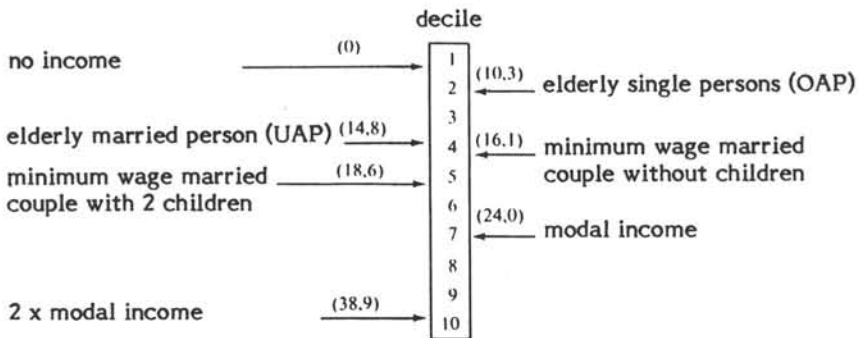
The distribution of government subsidies over income groups in the housing sector is lopsided. Taking only the main occupiers into consideration (people living in part of someone else's house are not included in the secondary distribution of income), than a u-shaped distribution is seen to emerge. The highest incomes receive more than the average as result of tax relief for owner-occupied dwellings and the lowest incomes receive more than the average on account of rent allowance and heavenly subsidized housing for the elderly. The middle incomes receive less than the average.

If we look at the total distribution of income, then the distribution is even more lopsided. The lowest income earners, who have no independent dwelling, cannot therefore acquire tertiary income. A minimum amount is received in the first decile, whilst the highest decile receives more than in the previous distribution.

The development of a norm for the receipt of government subsidies in the housing sector is no unequivocal matter. One group of people considers that the subsidies should go to the higher income brackets in order to stimulate filtering, whilst others believe that housing should be built directly for the poor, in which case the subsidies should go to the lower income brackets. It is also possible to derive a norm from the need and the financial capacity on the occupants. The idea behind this is that every household, taking its need into account, should benefit equally from the government amenities. This is only possible if there is a very strict distribution of living accommodation or by means of income prices. Otherwise the higher incomes will consume more of the housing services and thus acquire a higher tertiary income. However, the income price has to have a very progressive course to attain this goal; from 20% of the cost price at the lowest decile to 138% of the cost price at the highest decile. But this would only appear to be possible if the government has the monopoly in providing housing services. It must therefore be "feared" that in the present social system the distribution of subsidies in the housing fields will remain lopsided.

NOTES TO CHAPTER 2

1. Social and Cultural Planning Office (SCP), 1981.
2. Only households with an independent dwelling are included in this income distribution. Those who rent a room, lodgers, etc. are not counted in the distribution of income. Were this to be done, and were all children over 18 to be counted as separate households, even though they will live with their parents, then the distribution of income would be as follows:



3. This chapter is almost entirely taken from G.J. van 't Eind, H. van Fulpen, E.Pommer and L.W. Ruitenbergh, Social and Cultural Planning Office, 1982.
4. The calculations in this section are based on the distribution of income as described in note 2 above.

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3.

HOUSING COSTS IN THE NETHERLANDS: TRENDS IN THE PERIOD 1950 - 1980 AND THE DISTRIBUTION OF HOUSING COSTS IN 1977

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Delft University of Technology
The Netherlands

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3.1. Introduction

This contribution presents a preponderantly quantitative survey of the changes in the costs of housing in the Netherlands since 1950. In addition, it pays attention to the pattern of housing costs applicable to different groups of the population in 1977. The distribution of subsidies by class of population and the housing cost policy desirable are not considered.

The following subjects are dealt with in four separate sections:

- changes in incomes, building costs, prices and rents for old and new dwellings in relation to each other;
- the calculated "rent-income ratio's" to be paid by an "average" employee's family in the cases of an old and a new rented dwelling and of an owner-occupied dwelling;
- the consumptive outgoings for housing as part of the National Income, and as part of family housekeeping costs;
- the distribution of housing costs in 1977.

Before presenting the figures it is worth considering some of the main characteristics of the housing system in the Netherlands.

The rent for almost all dwellings is regulated by government. Moreover, an extensive system of subsidies exists for the rental sector. In principle, no tenant is excluded from rent allowances, albeit a certain maximum rent and income is involved. Also, property subsidies are provided across a broad front. Within the rental sector a distinction can be made between property owned by private landlords and by non-profit organisations - housing corporations and municipalities. In addition there are differences in the methods of financing: publicly financed and subsidized dwellings ("Housing Act dwellings"), private financed and subsidized dwellings ("Premium dwellings") and unsubsidized (free sector) dwellings.

The Housing Act dwellings are operated by non-profit organisations only. As a rule such dwellings are financed by government loans. Premium dwellings may be operated by both non-profit and private landlords. Finance is provided by private investors.

In the cases of Housing Act and Premium Rental dwellings the government offers property subsidies; for about the last ten years, in both sectors, these subsidies have had the nature of offsets to operating losses, so far as the latter could be estimated at the start of operating. However, operating risks are taken by the landlords, even in the non-profit sector.

In the course of time, the difference between Housing Act and Premium Rental dwellings has decreased in significance. This is the result of pursued policy. Since about 1960 this policy has been directed towards creating equal operating conditions for both private and no-profit organisations.

Regulation of the market has been very much less developed for the owner-

occupied sector. In general, there is no control of the selling price. A system of property subsidy is even less in evidence. Only in the case of new dwellings a subsidy can be granted to the purchaser, with the object of reducing his initial housing costs. The number of subsidized owner-occupied dwellings and the amount of the subsidy are dependent on the market situation. The government has had a tendency to lower subsidies when demand for purchase houses is high, in order to reduce the number of housing subsidies and to increase building activity in the free sector. When the owner-occupied sector stagnated - this occurred after 1978 - the number of subsidized dwellings and the subsidy per dwelling both increased.

3.2. Changes in incomes, building costs, cost of living, house prices and rents since 1950

Table 8: Indexes of prices and incomes, The Netherlands 1950-1980 (1950 = 100)

year	nego- tiated income	price index, domestic consumption	building costs	controlled rents	rent, new Housing Act dwellings	rent, new Premium Rental dwellings
1950	100	100	100	100	100	100
1955	135	118	141	145	135	157
1960	180	137	157	217	228	252
1965	275	165	214	265	375	357
1970	400	205	300	375	639	640
1975	720	311	505	516	860	992
1980	965	420	776	710	1517	1339

Table 8 shows the changes in union-negotiated incomes, cost of living, building costs and rents, based on values for 1950. The building costs index is based on the costs for new dwellings built under the Housing Act. The cost of land is not included. The effect of increase in the quality of dwellings has been eliminated as far as possible. The total construction costs of new Housing Act Dwellings rose faster than the building costs, by as much as approximately 50% in the period 1950-1980.

In the case of rented dwellings a distinction has been made between controlled rents for existing property and rents asked for new dwellings. The rents asked for new property are determined by building costs, the increased quality,

the price of land and the subsidy policy among others; a decrease in the object subsidies, for example, is accompanied by an increase in rents. Controlled rents presented here are related to pre-1939 property, taking into account legally-permitted rent increases. It will be obvious that actual rents for existing dwellings can differ from these controlled rents: landlords do not always respect the rent regulations; changes in quality of a dwelling (obsolescence, improvements) can occur and these affect the percentage increases in rents; the effects of changes in the supply of dwellings, due to demolition, new construction and quality changes to existing dwellings, have neither been considered.

As a result the factual increase in rents for existing properties quite clearly exceeds the index of controlled rents. In the period 1969-1980 the average rent for existing dwellings in reality increased 25% more than the controlled rent, or about 2% per year extra. However, these data before 1969 are not available so that this index of controlled rents must be accepted.

In the period between 1950 and 1980 union-negotiated incomes rose faster than the cost of living; it can be said that there was a real increase in disposable incomes. Moreover, incomes rose faster than building costs and rentals for existing property. Older rented dwellings became therefore relatively cheaper. On the other hand, new Housing Act dwellings were, in relation to negotiated incomes, more expensive and less affordable for many people. The gap between rents for existing and newly-built dwellings increased.

However, the following must be considered: since 1970 a system of rental allowances has been in force. This system was considerably extended in 1975. At the same time the object subsidies were reduced. The gross rents asked increased sharply as a result, but the netto rents, for the lower income groups in particular, increased to a lesser degree.

If 1938/39, and not 1950, is taken as the basis year for calculating the indexes, a somewhat different picture is obtained. Rents for pre-1939 dwellings remained frozen at the 1940 level until 1951. In contrast, the cost of living, incomes and building costs doubled. If 1938 is taken as 100, controlled rents did not even follow the cost of living.

The selling prices of owner occupied dwellings were not known up to 1965. Figure 11 shows the changes in selling prices, rents, incomes and cost of living, with the year 1965 as basis. The selling prices here are for family houses with vacant possession. These are the most indicative of changes in the selling prices in the owner-occupied sector in general.

From figure 11 the following can be deduced: in the period 1965-1980 rents for existing property rose slightly faster than the cost of living. The rents of new Housing Act dwellings rose faster than incomes over the whole period, with exception of the period 1971-1974.

Selling prices lagged behind incomes in the beginning. But particularly after 1975, prices rose out of all proportion. The increase came to an abrupt halt in 1979. This boom was due to the strong increase in the demand for home ownership, corresponding to the large increases in incomes and an increased

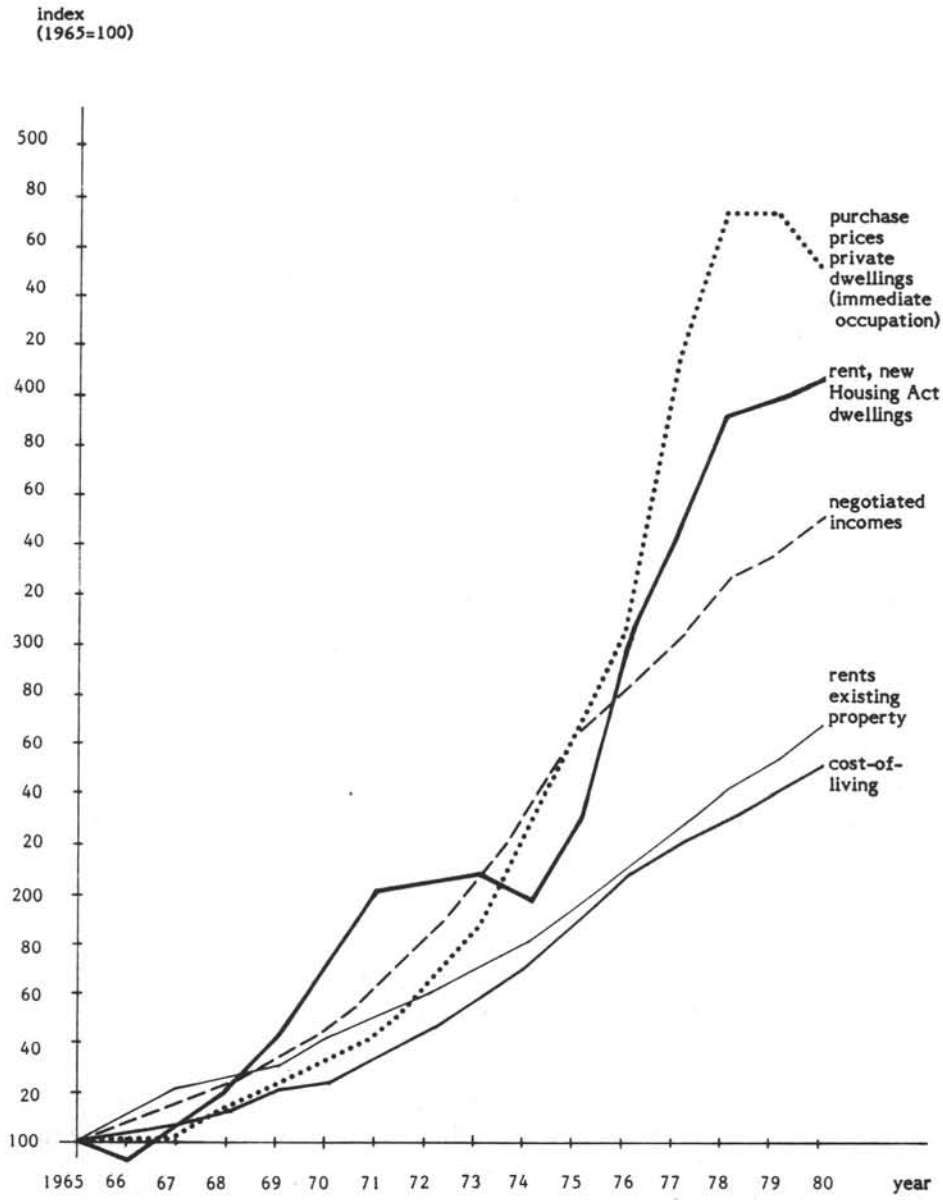


Fig. 11. *Indices of cost-of-living, incomes, rents for existing and new Housing Act dwellings and purchase prices, The Netherlands, 1965-1980 (1965 = 100).*

requirement for good quality housing, to (until 1978) a low real interest rate and to a high rate of inflation. Moreover, it was relatively easy to obtain a mortgage loan during the 1974-1978 period.

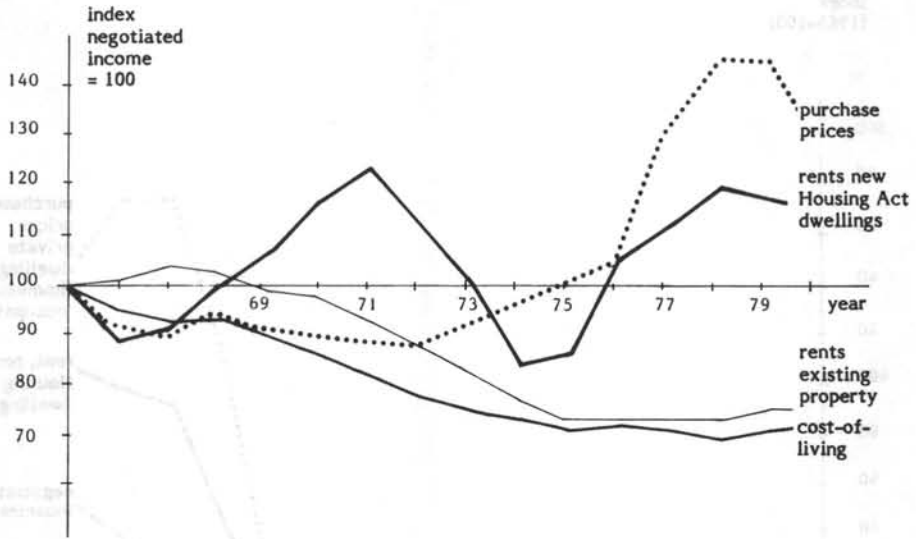


Fig. 12. *Indices of cost-of-living, rents for existing and new Housing Act dwellings and purchase prices, The Netherlands, 1965-1980; index negotiated income = 100.*

The various indexes are presented again in figure 12, in which the index of incomes is reset to 100 every year. This shows that after 1974 the prices overtook the increases in income and that as a result the increase in prices during the period under consideration exceeded the increase in incomes.

3.3. Some calculations concerning "rent-income ratio's" in the case of tenants and owner-occupiers

In themselves, the indices of incomes, rents and prices do not present a picture of housing costs. However, since in addition to these indices, the absolute figures for existing and new property rents, for disposable incomes and for house prices are known, it is a simple matter to calculate the proportion of disposable incomes which is devoted to housing.

So far as incomes are concerned, use has been made of statistics regarding the disposable incomes of married employees with two children, engaged in industry. Incomes in this group are at a relatively low level. Comparison with statistics for the distribution of incomes in 1973 and 1977 shows that this group falls into the third and fourth deciles of the income distribution. Rents for existing properties have been calculated with the aid of the rent index, taking into account from 1969 onwards the price increases due to supply changes.

Rents for new Housing Act and Premium Rental dwellings have been taken from the annual reports of the Central Directorate of the Ministry of Housing. What are involved here are the rents, after deduction of property subsidies.

For these new rented property only rents in the first year are presented; increases in rents in the years subsequent to the first, correspond to the rent increases for existing property and not to the rents for new property completed in those subsequent years.

For owner occupied dwellings, the gross initial costs have been calculated. The basis used was 80% financing by means of a 30-year mortgage loan with equal annual repayments. The mortgage-interest was taken to be the average for the year concerned. The building costs and the subsidies for owner occupiers are known since 1960; since 1965, the selling prices for existing houses in the stock are also known. From 1960 until 1968 property subsidies are given in the first year only and have been deducted from the construction costs. The annual subsidies, provided since 1968, have been deducted from the gross mortgage payments.

Gross mortgage payments can not be directly compared with rents. Rents include elements for maintenance, local government rates, insurance, etc., which do not form part of gross mortgage payments. In addition, the effects of taxation have not been taken into account. The interest of mortgage payments is tax deductible, while the imputed rent of the property is added to income. The nett initial costs in the case of property purchase therefore differ clearly from the gross costs shown. Due to the progressive scale of income taxation, the nett costs are lower for the higher income groups than for the lower.

The "rent-ratio's" calculated for owner-occupation reveal only the gross initial costs. If a person purchases a dwelling in a given year, his gross mortgage

Table 9: Nett rents and gross mortgage costs as a percentage of disposable income of first year occupancy, of a family with two children and a median income, The Netherlands, 1950-1980.

year	Rent Index			Gross Mortgage Index		
	rented existing property	new Housing Act	new Premium Rental	new premium purchase	existing family house	existing tenement-house
1950	8,7	11,3	15,5	—	—	—
1955	9,7	11,5	18,1	—	—	—
1960	11,2	15,0	22,5	15,7	—	—
1965	9,1	16,5	21,4	19,5	21,9	10,0
1970	9,0	19,3	26,4	12,4	27,0	9,2
1975	8,0	15,4	24,9	15,5	—	—
1980	8,3	19,7	23,6	39,0	51,5	19,7

payments will remain the same in the succeeding years, but the "rent-ratio's" often will decrease due to increases in income. Table 9 gives the calculated rent-income-ratio's and the gross-mortgage income-ratio's. In comparison with disposable incomes, rents for existing property have fallen since 1960; previously there has been a slight increase. The calculated rent ratio lies at a relatively low level: just over 8% of disposable income in 1980.

The ratio for new Housing Act and Premium Rental dwellings are on significantly higher level; moreover they increased in the course of time, following the increased quality of new dwellings in comparison to pre-1939 property.

An interesting aspect is the relationship between the rental income ratio's for Premium Rental for Housing Act dwellings. In general Housing Act property is of a lower quality and therefore cheaper; these dwellings are intended mainly for occupiers with a low or modal income. The Premium Rental sector is usually designed for the somewhat higher income groups. The fact that Premium Rental property attracts a higher rental slice for a tenant with the same income is scarcely surprising.

In addition, the type of subsidy system has a considerable effect. In the 1950's a lump sum contribution was extended to the premium sector, producing only a slight reduction in rents in the first year, whereas Housing Act dwellings attracted annual contributions, resulting in a considerable reduction in rents. In order to improve the competitive position of Premium Rental dwellings in comparison with Housing Act property, the annual contributions for the latter were reduced in 1960 and onwards, and a change was made to a system of annual contributions for Premium Rental property. As a result the respective ratio's in the two sectors approached each other, as can be seen from figure 13.

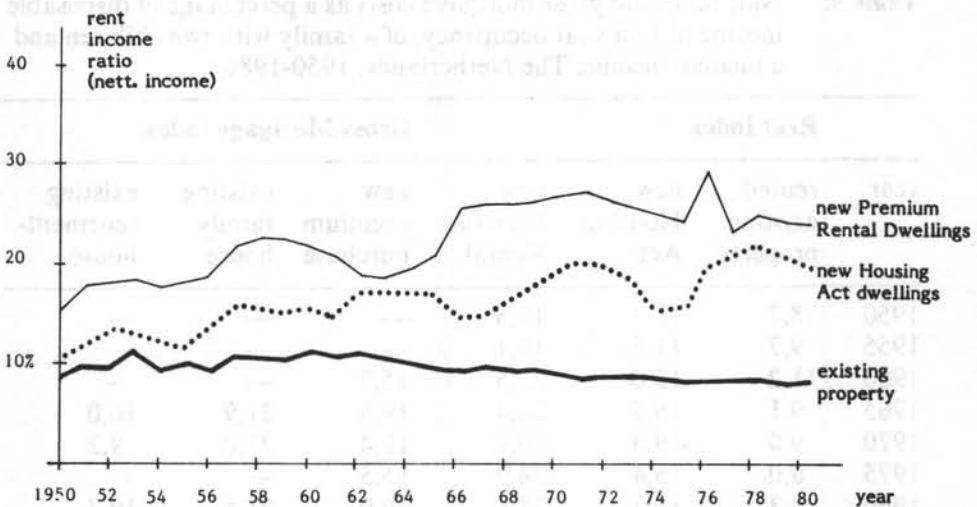


Fig. 13. Rent-income ratio, The Netherlands, 1950-1980.

However, the gap again increased after 1964, mainly due to an increase in interest rates. A fixed interest rate of 4% was used for calculations regarding Housing Act property while Premium Rental property had to bear the current capital market rate of interest. When the interest ratio rose above 4%, Housing Act dwellings enjoyed in fact an interest subsidy. However, a new subsidy system was introduced in 1967/1968, under which in both sectors the commercial rate of interest was calculated, and the method and amount of subsidy for both Premium Rental and Housing Act properties were equalized. As a result the gap between ratios in both sectors again decreased.

After 1973 the domestic construction industry faced increasing problems; there was a considerable decrease in building activity. Moreover, there was the oil crisis of 1973/1974, which led the Cabinet to undertake measures for moderating increases in incomes. Within the scope of these, object subsidies for Housing Act dwellings were considerably increased. In the case of Premium Rental dwellings the property subsidies remained as before.

The system of rent subsidies was again amended in 1975. Property subsidies were decreased and rent-allowances augmented. This, and a marked quality increase led to an increase in the rents for new Housing Act houses, and to a decrease in the property subsidies granted by the government in the first year.

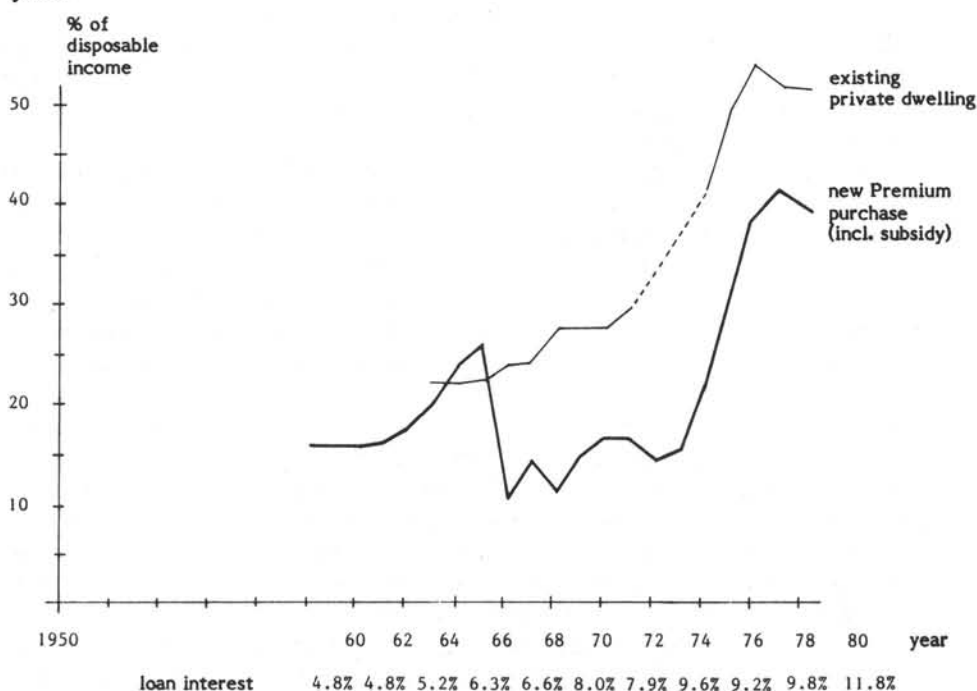


Fig. 14. Gross mortgage costs first year as a percentage of disposable income (married employee in industry, 2 children), The Netherlands, 1960-1980.

Gross mortgage costs are at a considerable higher level than net costs in the rental sector, as can be seen from table 9 and figure 14. In addition, these gross mortgage costs rose much more rapidly than rents. This reflects the increase in selling prices on the one hand, and the increase in the rates of interest for mortgage loans on the other.

Until 1968 the initial costs of existing property were comparable to those of new dwellings. Thereafter premium owner-occupied property became steadily cheaper: this undoubtedly encouraged the construction of property for sale.

The difference in initial costs is closely connected with the method of subsidy. Until 1968 new premium owner-occupier property attracted mainly a lump sum subsidy, which resulted in only a slight reduction in the initial costs. Thereafter only annual contributions were given, at their highest in the first year and reduced in each subsequent year until they completely disappear within a period of about 10 years. This change in the system of subsidies led to a strong reduction in the gross mortgage costs of premium dwellings in the first year.

The initial costs of premium owner-occupied housing was held at a reasonable stable level up till 1975, in spite of the higher interest rates and construction costs. After 1975, however, the initial costs grew staggeringly. Selling prices increased sharply due to the high demand for owner-occupied dwellings. The government reduced the subsidies for new property for sale without any risk of disrupting the building industry, mainly because subsidized houses remained relatively cheap in comparison with the stock. But after 1978 the owner-occupier market stagnated and subsidies for the purchase of new houses had again to be increased.

The fall in selling prices, which occurred from 1978 onwards, was nonetheless insufficient to depress initial costs appreciably. The high rate of interest has an important effect on initial costs. Moreover, income fell after 1978.

Costs remained extraordinarily high in comparison with incomes. This led to a fall in the demand for owner occupied houses. Sales of existing property stagnated. The proportion of property for sale in the housing production fell considerably and that of Housing Act dwellings, with relatively low rents, increased sharply.

The first year ratio's for owner-occupiers and for tenants of new rented property differ from those of persons who remained several years in the same dwelling. As an example the ratio's for the families of employees who began occupancy in 1969 and who have not moved since, are presented in table 10. It is assumed that the mortgage rate of interest has remained constant since 1969. The gross annual repayment remains the same every year. Because the annual subsidies decrease every year the calculated mortgage costs rises somewhat.

Rents for new property probably changed in conformity with government regulations, and only annual rent increases after 1969 have been taken into account. Table 10 makes clear that the rent ratio's for new and existing dwellings decreased. Mortgage costs for the purchase of an existing property were at a high level in 1969. These decreased to an even lower level in 1980 than the net rental costs for a Housing Act dwelling. It is true that the initial costs are high

Table 10: Changes in calculated rent and gross mortgage indexes. Family with two children and a median income, taking up occupancy in 1969 (% of disposable income), The Netherlands, 1969-1980

year	Rent-index		Gross mortgage index		
	rented existing property	new Housing Act ¹	new Premium Rental ¹	new premium purchase ^{2 3}	existing family house ³
1969	9,3	17,6	25,7	14,7	24,3
1970	9,0	16,9	24,8	14,7	22,2
1971	8,5	15,9	23,3	14,1	19,5
1972	8,5	15,7	23,0	14,1	18,1
1973	8,7	15,5	22,6	14,0	16,8
1974	8,5	14,4	21,1	13,2	14,8
1975	8,0	13,9	20,4	12,5	13,2
1976	8,2	14,3	20,8	12,6	12,6
1977	8,2	14,0	20,5	12,3	11,6
1978	8,3	14,2	20,8	12,2	10,9
1979	8,2	13,9	20,4	12,0	10,2
1980	8,3	13,9	20,3	11,2	9,6

¹ excluding housing allowances

² including decreasing annual contributions

³ excluding changes in interest rates

but the decrease in those costs is considerable. A different situation appears in the case of premium owner occupation. The initial costs are relatively low, but the decrease of the ratio's is less, due to the decrease in property subsidies.

3.4 Consumptive outgoings for housing

Data regarding outgoings for housing at the macro level have been taken from the National Accounts. The information required concerning outgoings at the micro level were obtained from various surveys of domestic budgets.

The consumptive outgoings for housing, given in the National Accounts, are the sum of rents and the rental values. The rental value is the estimated rent which a privately-owned dwelling would attract if it were let.

Table 11: Outgoings for rent, as percentage of National Income and of total consumptive outgoings, The Netherlands, 1950-1980
(Source: CBS National Accounts).

Year	Gross investment in dwellings % NI	Rents excluding subsidies % NI	Rents including subsidies % NL	Subsidies as % of rents	Rents excluding subsidies as % of consumptive outgoings
1950	4,3	3,73	3,96	5,9	5,0
1955	4,1	3,52	4,32	22,7	5,5
1960	4,8	4,21	5,28	25,0	6,7
1965	5,5	4,00	4,35	8,7	6,3
1970	5,7	4,20	4,55	8,5	6,7
1971	6,3	4,32	4,76	10,1	7,0
1972	7,0	4,46	5,00	12,0	7,3
1973	6,9	4,58	5,17	12,8	7,6
1974	6,0	4,69	5,38	14,6	7,8
1975	5,6	4,93	5,86	18,8	7,7
1976	5,5	4,99	6,07	21,4	7,9
1977	6,4	5,22	6,41	22,1	8,1
1977 ¹⁾	6,4	5,59 ¹⁾	6,77 ¹⁾	21,1 ¹⁾	8,5
1978	6,6	5,79	7,05	21,7	8,7
1979	6,3	6,08	7,39	21,2	9,1
1980	6,6	6,41	7,70	20,1	9,5

¹⁾ revision for 1977 and later

Table 11 gives the proportion of gross investments in housing (including depreciation), the expenditure for housing (incl. and excl. subsidies), as a percentage of the National Income and of the total consumptive outgoings. These data are presented graphically in figure 15.

The consumptive outgoings for housing in proportion to the National Income show an almost continuous increase, the investment in housing construction having been at a high level for years. The sharp increase in 1977 is due to a change in the definition of consumptive outgoings.

Subsidies as a percentage of rents were relatively high in the 1950s. Because increases in rents were used as a means to reduce property subsidies, this percentage fell appreciable between 1960 and 1964. The increase after 1970 is connected with the fact that rents no longer kept pace with the developments in construction and operating costs and with the large numbers of new, subsidized dwellings which were added every year to the stock of existing property.

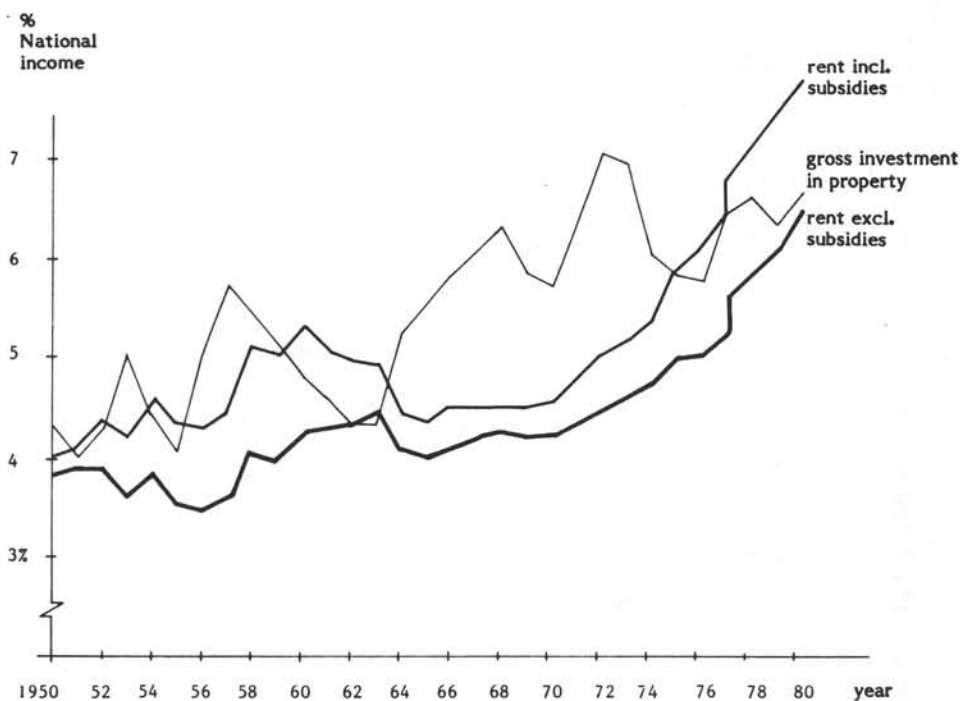


Fig. 15. *Consumptive outgoings on rent and gross investment in property as a percentage of national income (market prices), The Netherlands, 1950-1980.*

Table 12 (page 42) gives a number of key figures for the years 1956, 1960, 1971 and 1980: the number of occupants, dwellings, households. The average occupancy fell from more than 4 persons per dwelling in 1956 to almost 3 in 1980. The total consumption of dwellings rose between 1956 and 1980 by a factor of 5,4 in real terms. The dwelling consumption per inhabitant increased by a factor of 4,16. The consumption per household increased less, by a factor of only 3,3. The higher consumption of dwellings corresponded also to the increase in the number of households.

The budget surveys of 1951, 1963/1965, 1974/1975 and 1978 reveal no less of an increase in rents and rental values in relation to the total consumption. In 1951 the proportion of outgoings for rent of employees' families was 6,3%, in 1963/1965 8,1%, in 1974/1975 12,4% and in 1978 12,6%. The greatest increase took place in the period between 63/65 and 74/75.

Table 12: Consumptive outgoings for housing, total, per inhabitant and per household, The Netherlands, 1956-1980

1 Year	2 No. of inhabitants x 1000	3 No. of households x 1000	4 No. of existing properties x 1000	5 average occupancy of dwellings	6 total housing consumption		7 6 as % of total cons. outgoings		8 housing consumption per habitant		9 housing consumption per household	
					mln. gld.	1956 = 100	%	1956 = 100	gld.	1956 = 100	gld.	1956 = 100
1956	10.367	2.953	2.546	4.07	1.023	100	5,2	100	94,-	100	346,-	100
1960	10.950	3.204	2.824	3.88	1.616	158	6,7	129	141,-	149	504,-	146
1971	13.194	4.056	3.908	3.40	5.130	501	7,0	135	389,-	414	1265,-	366
1980	14.148	4.841	4.837	2.95	19.220	1879	9,5	183	1358,-	1447	3970,-	1147
In discounted guilders (1956 = 100)												
1956						100			94,-	100	346,-	100
1960						140			125,-	133	446,-	129
1971						274			213,-	227	691,-	200
1980						541			391,-	416	1144,-	331

Table 13: Real increase in consumption (in %) between 1963/1965 and 1974/1975 for employees' families, per income group, The Netherlands. (Source: CBS employees budget survey 1974/1975).

Gross income in 1974 (x f 1.000,-)	Less than 28	28-40	More than 40
Total outgoings	31.8	15.8	17.3
food	21.0	15.5	18.3
clothing, etc	-10.2	-20.8	-34.7
hygiene and medical care	19.3	- 6.7	- 7.4
education and recreation	77.1	35.8	16.6
total, living	45.6	39.4	85.2
rent, rental value and maintenance	82.4	60.7	191.4

On the basis of the two budget surveys an analysis can be made of the changes in the pattern of outgoings which took place in ten years, for each income group (table 13). The outgoings for rent, rental value and maintenance increased more than other types of outgoings. The increase is exceptionally high for income groups with an income above f.40.000,- in 1974. This is probably closely connected with the growth of owner-occupation within the higher income groups.

3.5. Distribution of housing costs in 1977.

We have shown some of the trends in the changes in housing costs in the Netherlands. The picture presented is somewhat crude. On average the proportion of housing costs in the disposable income is not particularly high, even though a clear increase took place in the 1970's. The distribution of housing costs among the various groups of occupants is however at least as important as the average housing cost. Relatively low housing costs are probably to be seen in the case of older rental property and owner-occupiers who have been in occupation for a long time. High housing costs are probably to be found where occupiers of new rental property and recent buyers are involved.

Below some of the results of the Housing Needs Survey 1977, are given. This survey gives insight into the housing costs of owner occupiers and tenants as a percentage of disposable income. In this case, again, no direct comparison of housing costs for owners and tenants is possible. In the case of tenants, the net housing costs - rent less housing allowances - is taken, whereas for owners the housing costs are expressed as the gross mortgage costs.

Table 14: Gross mortgage costs per income group, as a percentage of the disposable income of main occupant, The Netherlands, 1977
(Source: CBS, regional housing needs survey 1977).

disposable income (f)	gross mortgage costs (% disposable income)						abs (=100%)
	no mort-gage	to 12%	12-20%	20-28%	28% and more	un-known	
less than 12.000	72	6	3	2	10	7	84.600
12.000-15.000	74	10	3	2	5	6	54.500
15.000-18.000	63	14	6	4	6	7	94.100
18.000-21.000	42	21	13	7	7	10	104.000
21.000-24.000	27	30	16	11	9	8	131.000
24.000-30.000	21	29	20	11	9	10	240.000
30.000-36.000	18	28	23	15	10	7	161.600
36.000 and more	14	32	24	12	9	8	322.600
total in % abs	31 364.900	25 303.500	17 207.200	10 117.800	9 102.800	8 97.900	1.194.100

%
occupants

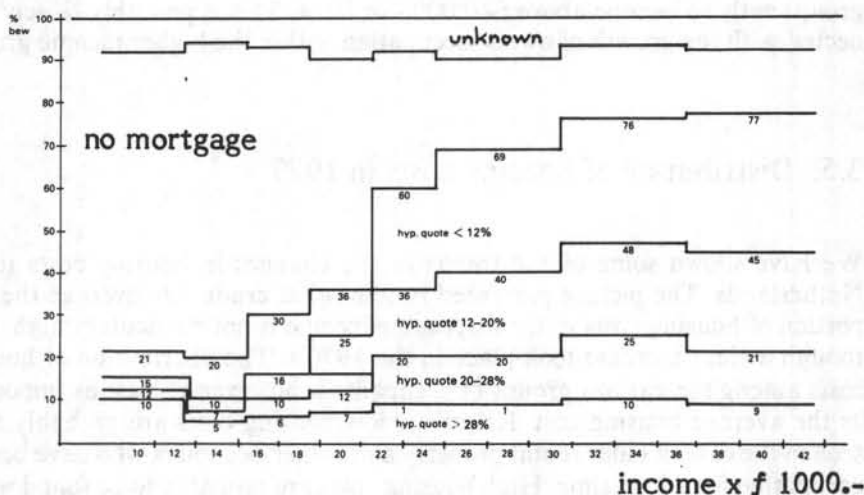


Fig. 16. Gross mortgage costs as a percentage of disposable income, The Netherlands, 1977.

Table 15: Percentage of tenants with a nett rent-ratio of 15% and more per income group according to construction period and time of occupation, The Netherlands, 1977
(Source: CBS, Regional Housing Needs Survey 1977).

disposable income x f 1.000	up to 20	21-29	30 and more	total
total	43	22	9	29
construction period				
pre-1906	26	9	5	18
1906-1930	26	5	3	18
1931-1944	42	5	6	17
1945-1959	31	5	2	17
1960-1964	42	10	2	20
1965-1969	60	21	8	30
1970-1974	75	58	18	53
1975 and after	73	55	23	53
time of occupation				
pre-1950	28	5	3	24
1950-1954	21	1	—	15
1955-1959	30	5	2	17
1960-1964	34	4	2	17
1965-1969	41	7	4	21
1970-1974	49	27	13	32
1975-1976	52	35	13	36
1977-1978	54	37	11	38

The gross mortgage ratio's: table 14 and figure 16 show the distribution of the gross mortgage costs in relation to disposable annual income. Table 15 shows in addition the relationships between the mortgage ratio's, the period of construction and the period in which the dwelling was occupied. The table reveals that in the owner-occupied sector 31% of the occupants had no mortgage costs. In the case of occupiers with a lower income (often elderly, long in possession of a dwelling) this percentage is higher: more than 70%. With higher incomes the proportion of occupiers without mortgage costs is less and the percentage with a higher mortgage ratio is greater. The fiscal policy, which makes deduction of the mortgage interest more attractive for the higher income groups, is probably partly responsible for this. Also an important factor is that occupiers in the higher and middle incomes groups often moved recently into their own dwelling. These groups purchased, relatively often, new and expensive dwellings.

Their high mortgage indexes reflect the rapid expansion of the owner-occupied sector in the 1970s.

Table 16: Nett housing costs per income group in percentages of disposable income of the main occupant, The Netherlands, 1977
(Source: CBS, Regional Housing Needs Survey 1977).

disposable income in guilders per year	nett housing costs					total (abs = 100%)	
	up to 9%	9-14%	15-20%	21 and more	unknown		
12.000	7	19	38	32	4	237.100	
12.000-15.000	12	36	36	13	3	159.200	
15.000-18.000	16	55	16	9	3	256.200	
18.000-21.000	20	53	19	7	1	270.000	
21.000-24.000	25	49	19	5	2	275.700	
24.000-30.000	37	43	16	4	1	393.300	
30.000-36.000	42	42	13	1	1	204.700	
36.000 and more	63	30	3	—	4	258.100	
	—	—	—	—	100	529.900	
total	in %	23	33	15	7	22	
	abs	592.700	853.500	892.500	172.900	572.800	2.584.300

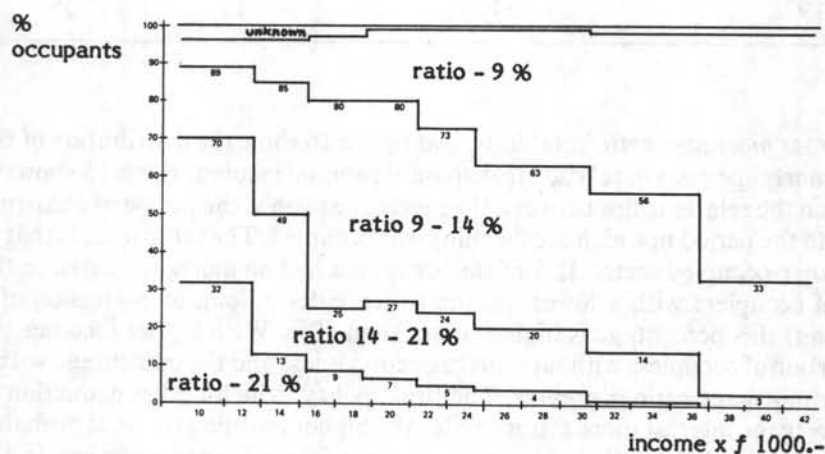


Fig. 17. *Nett rent-income ratio for occupants according to disposable income, The Netherlands, 1977.*

Table 17: Percentage of owner-occupiers with gross mortgage costs above 20% of disposable income, per income group, construction period and time of occupation, The Netherlands, 1977
(Source: CBS, Regional Housing Needs Survey 1977).

income x f 1.000,-	up to 20	21-29	30 and more	total
total	12	22	26	20
Construction period				
pre-1906	7	19	19	11
1906-1930	8	12	17	12
1931-1944	10	14	17	14
1945-1959	11	11	11	11
1960-1964	16	15	14	14
1965-1969	15	22	16	18
1970-1974	31	38	29	31
1975 and after	55	74	57	61
Time of occupation				
pre-1950	2	2	6	3
1950-1954	4	5	3	4
1955-1959	5	5	2	4
1960-1964	11	4	3	6
1965-1969	8	8	8	8
1970-1974	21	21	19	21
1975-1976	42	58	46	49
1977-1978	46	67	50	54

The rent income ratio's: see table 16 and 17, and figure 17.

The relationship between income and housing costs in the rental sector has a totally different character as in the case of owner-occupiers. Here the rent-ratio's are higher to the degree that the income is lower. The major proportion of the tenants have relatively low rent-ratio's. About 1,4 million of the more than 2 million tenants pay less than 14% of the disposable income as rent. Those who pay more than 14% belong mainly to the group earning the minimum income or less. A division by age shows that the older and the younger often have higher rent-ratio's; higher ratio's are also found among those who moved after 1975. The highest percentage of rent indexes above 14% is to be found where low income and a short period of occupation, or of a low income and a recently built dwelling, are combined.

Table 18: Rent-income ration per rented sector, The Netherlands, 1977
(Source: CBS, Regional Housing Needs Survey 1977).

Nett rent-income ratio	Non-profit rented sector		Private rental dwellings	Rental dwellings owner unknown	Total	
	Housing Act dwellings	Other and unknown			in %	absolute
less than 9%	23,0	23,6	21,5	23,3	22,9	592.700
9-15%	28,8	34,3	29,9	27,1	33,0	853.600
15-21%	15,2	17,0	18,2	13,5	15,2	392.400
21% and more	4,2	5,7	10,1	8,5	6,7	173.000
unknown	18,8	19,4	20,4	27,6	22,2	574.800
	%	100	100	100	100	
total	absolute	1.107.200	178.500	391.900	906.700	2.584.300

Table 18 shows that the number of occupants with a modest rent ratio is large in the case of Housing Act dwellings (255.000) and dwellings for which the owner is unknown (211.000). Almost 600.000 of the 2.580.000 tenants pay less than 9% of their income on rents.

3.6. Conclusions

The proportion of housing costs in relation to the consumptive outgoings and the National Income has risen. This is closely connected with population growth, with higher housing quality, and with a decrease in the average occupation per dwelling. The higher outgoings are also connected with the relatively large increase in the construction costs and interest rates.

Since 1979 incomes fall in real terms and this will continue the next years; the prospects with regard to incomes are not rosy. This became manifest first and most clearly in the owner-occupied sector. Demand fell sharply, as well as purchase prices. In the rental sector the consequences were not felt so immediately since there was an extensive system of price control, property subsidy and demand-stimulation. However as a result government subsidies rose considerable. While the government budget is now under heavy pressure, less generous price-reducing subsidies will probably be given in the near future, and the costs of housing paid by households will increase.

If the level of investment in new property and improvements in the quality of existing dwellings are maintained, even further increases in housing out-

goings are unavoidable. It can be calculated that then average housing consumption as a proportion of disposable income will rise from 9,3% in 1980 to 11,5% in 1985, which amounts to an annual increase in housing costs of about 12%

There is a great danger that all these factors will result in a decrease in the effective demand for new dwellings, thus in a drop of building output, and moreover in an unequal distribution of opportunities in the housing market: those who are already reasonably housed will not quickly rehouse, those who wish to occupy an independent dwelling or who, for any reason whatsoever, must rehouse, have less choice. They could be forced to accept either poor housing or expensive new dwelling. The distribution of dwelling quality and housing costs might then become much more skewed than it is now.

In that respect it is important to encourage mobility, so that cheaper existing dwellings are released for the lower-income groups. It also is important to realise a target-group policy in the field of housing construction and distribution, to provide qualitatively reasonable and affordable dwellings for groups with a modest income.

In order to avoid a large increase in the average housing costs and subsidies it is desirable to restrict the investment per dwelling: to promote the construction of smaller dwellings, or dwellings with a lower quality than has been usual in the last few years and improvement to a less high degree. It might also be necessary to reduce the profitability of property ownership and operation, which would represent a loss of capital for private landlords and owner-occupiers and a reduction in the possibility of accumulating reserves in the case of non-profit oriented owners. Finally, and most important, it is perhaps unavoidable to increase the housing costs of sitting occupants to safeguard subsidies required for investment in new and existing property and for subsidizing those who must pay too high a proportion of their income for housing.

The moral is simple: a housing-costs policy is probably a condition of increasing importance both for guaranteeing sufficient investment in housing construction and for the distribution of housing in a manner which satisfies the demands of justice. However, such would place very high demands on the machinery of housing policy.

ASPECTS OF THE NOTION OF HOUSING COSTS

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4.1. Introduction

There is no doubt whatever that housing costs are rising. Everyone is in agreement on this and the problem is perfectly clear: both the occupiers and the authorities are finding it difficult to meet the mounting housing costs whilst incomes are on the decrease. Not clear is what precisely is meant by housing costs and how the rise in these costs is measured. This paper goes into various aspects of housing costs in more depth.

The first step taken in the following section is to draw up definitions of the various sorts of housing costs. Section 4.3 goes into the differences in housing costs between the rented and the owner-occupied sector. Particular attention is paid here to the method of financing and subsidizing in both sectors. The following sections give an analysis of the rise in housing costs: at the micro-level in section 4.4. and at the macro-level in section 4.5. Section 4.6. deals with the position of housing costs in the context of the total expenditure of families. The final section (4.7) presents an number of conclusions.

This paper is mainly of a qualitative nature and refers to the Dutch situation. Frequent reference is made to J. van der Schaar's paper (chapter 3) to fill in the figures for many of the developments in the field of housing costs.

4.2. Structure of housing costs in the rented and the owner-occupied sector

The housing costs consist in principle of the same elements in both sectors:

1. financing costs
2. + exploitation costs
3. \sphericalangle building and exploitation costs subsidy
4. basic rent/basic costs of the owner-occupier/basic housing costs
5. + service costs
6. gross rent/ gross costs of the owner-occupier/gross housing costs
7. \sphericalangle rent allowance/income tax facilities
8. net rent/ net costs of the owner-occupier/net housing costs
9. + additional costs
10. integral rent/integral costs of the owner-occupier/integral housing costs.

The following paragraphs specify what is meant by each of these elements.

Section 4.3 goes into the differences in the level of housing costs between the rented and the owner occupied sector in greater depth.

4.2.1. Financing costs

The financing costs are composed of two elements. In the first place the interest on the capital invested in the dwelling and secondly the annual redemption. In this context it does not matter in principle whether the dwelling is in part financed with proprietors' capital. In that case it is true that the interest to be paid on the credit capital is less than where the financing takes place for 100% with credit capital, but on the other hand the opportunity costs of the capital invested in the dwelling must also be counted as part of the normal financing costs. In total the interest costs come to the same amount in both cases.

Apart from the interest costs the proprietor has to pay back part of the loan every year. These periodical repayments are simply incorporated into the rent and are also paid by the owner-occupier with a mortgage. If the financing is done with proprietors' capital, then of course there are no sums included in the cost calculation for redemption. In this case a comparable sum for depreciation must be included in the housing costs.

From the theoretical point of view the question of depreciation on real estate is extremely interesting. The aim of depreciation is to reserve money during the running of durable production goods for the necessary replacement of these goods at the end of their "life span". An important question is how large the depreciation fund should be made. As a minimum the nominal capital should be recovered. This is very much a minimum since inflation erodes nominal capital. Many proprietors will therefore prefer to aim at maintaining the purchasing power of the nominal capital. However, when there is a technical and economic progress this capital does not suffice to acquire resources, which meet the new demands of the enterprise's "normal" fulfilment of function. If the enterprise is to maintain its place in the production process, then it will have to allow a larger amount for depreciation. In the normal production process depreciation belongs to the running costs and is incorporated as such in the cost price of the product. The amount of the cost price is dependent on the depreciation policy, and thus on the long term vision of the enterprise. In principle it is also possible to make this sort of price calculation based on various depreciation methods for housing construction. These calculations are definitely of interest, since they lead to considerable shifts in the housing costs and the subsidies over time and, coupled with this, to changed demands on the capital market in the coming years. To make a choice for a normative depreciation policy for the housing sector is very difficult. By this choice one has to weight the interest of occupiers against those of owners and government; at this moment and also for the future. This goes beyond the scope of this paper. In this paper we don't compare the housing costs and the subsidies with a normative calculation of the costs, but we will just compare the costs and subsidies in the rented sector with those in the owner-occupied sector. This approach is useful for a rough description of the situation today, but it is insufficient as a base for a judgement about the financing and subsidy schemes itself. Nowhere in this paper therefore one can find a sentence that say that system A is better than system B. Strictly speaking the definitions of housing costs at the beginning of this chapter are

wrong. They are no *costs* but *expenditures*. The costs are normative and in principle they are in the rented and the owner-occupied sector the same. The expenditures on the contrary can differ between the two sectors according to differences in the financing and subsidy schemes. Because of referring to the common parlance we shall use in this paper the word cost instead of expenditure.

4.2.2. Exploitation costs

Apart from the financing costs a housing proprietor will incur other costs in order to be able to let the dwelling for a long period. First of all there is the maintenance, but there are also administration and management costs, insurance, property tax and a sum reserved for loss of income owing to vacancy. All these costs can be charged out to the tenant. Owner-occupiers pay also a great deal of these expenditures, but a part will be less on account of work they perform themselves. Just as was the case with the financing costs, account has therefore to be taken of opportunity costs.

In this context the maintenance costs should be restricted to the expenditure necessary to keep the quality of the dwelling at the same level. Improvement of amenities does not belong to maintenance. If such improvements are carried out, then a new rent calculation should be made, and the provision of extra services as a result of a new investment is offset by a higher rent.

4.2.3. Building and exploitation costs subsidy

The sum of the two elements described above produces the cost price of the dwelling. Where a new dwelling is concerned there will be very few households capable of bearing the costs. In order to make newly built housing accessible to a wider public, for certain dwellings the government give the proprietor a subsidy for a number of years, whereby the sum to be paid by the tenant can be reduced by that amount. Building and exploitation costs subsidies are paid out to the proprietor, lessor or owner-occupier, and their size is not dependent on the tenant's income.

The cost price minus the building and exploitation costs subsidy gives a basic rent or basic costs of the owner-occupier, being the amount which the owner should receive from the tenant, or the amount which the owner-occupier has to produce, in order to be able to balance the running costs.

4.2.4. Service costs

The owner often goes further than simply letting the dwelling and also offers a service package, which the tenant is obliged to accept since settlement is effected via the same tenancy agreement. Service costs occur mainly in flat building.

The costs of cleaning communal space, keeping the refuse shoots in order and removing the refuse containers, the wages of a possible porter and the maintenance of a communal garden are examples of this. In buildings where heating is provided on a communal basis the heating costs (the same amount per dwelling) also often come under service costs. This applies mainly to rented dwellings, but the phenomenon of service costs also occurs in owner-occupied flat dwellings. The basic rent plus service costs produces the amount which the occupier has to pay the owner in order to be able to inhabit the dwelling. We call this the gross rent respectively the gross costs of the owner-occupier.

4.2.5. Rent allowances/income tax facilities

The above-mentioned gross rent (owner-occupier costs) is only paid by half the occupiers. What the other occupiers pay varies according to subsidies at the individual level or the influence of income tax. The provision of subsidies takes place in various ways. In the budget of the Ministry of Housing and Physical Planning we find the (gross) amounts for rent allowances for tenants who live in a dwelling which is too expensive in proportion to their income; for rent acclimatisation grants; and for subsidies for new owner-occupied housing especially for the "lower" income brackets. In all these cases the amount of the subsidy depends on the income of the owner-occupier and on the price of the dwelling¹. These are gross amounts, since the occupier still has to pay income tax on these income transfers. Thus the nett amount received by the households altogether is considerably less than that which appears in the Ministry's budget.

Owner-occupiers, moreover, have to take two income tax regulations into account when determining their nett owner-occupiers costs. In the first place every owner-occupier has to add a sum for imputed rent to his income on account of housing services enjoyed. Secondly owner-occupiers who have taken up a mortgage are entitled to deduct the mortgage interest due from their income, whereby a reduction occurs in the housing costs.

The gross rent minus this individually determined allowance/levy on the housing costs results in the ultimate nett amount to be paid by the occupiers for the right of disposal over the dwelling. The actual use of the dwelling involves yet other costs.

4.2.6. Additional costs

As far as the occupier is concerned the costs accompanying the use of the dwelling will also often be understood under the general term housing costs. After all heating costs are inevitable incurred to make it possible to reside in the dwelling in a reasonable manner. The same applies to expenditure on electricity for lighting. Once we get into this field the demarcation problem becomes increasingly complex. The dividing line between "housing costs" and "other consumer expenditure" is somewhat vague.

Tax levied on the use of property can be seen as an overhead housing cost, but equipment and furnishing costs tend strongly in the direction of consumer expenditure. The characteristic of most of these additional costs is that the amount of the expenditure can to a considerable extent be influenced by the households according to the intensity of use. More heating, more lights on, more carpeting leads to greater expenditure. Partly on this account there are strong arguments in favour of viewing this expenditure entirely as normal consumption. On the other hand the relationship with the basic rent is also sometimes quite considerable. The carrying out of insulation measures leads to a lower energy bill but is accompanied by a higher basic rent. In this sense the heating costs and part of the basic rent complement one another. In some places the water consumption is not measured individually, but is charged out to the tenant via the lessor and thus via the (gross) rent. There are arguments in favour of designating at least a part of the expenses attached to the use of the dwelling as additional costs and as such including them in the notion of housing costs. For the time being we shall restrict ourselves on this point to heating costs, use of water and electricity and property tax.

4.3. Differences in level of nett housing costs between the rented and the owner-occupied sector for newly built dwellings.

The differences in housing costs in newly built dwelling are caused by:

1. Differences in construction costs
2. Differences in financing costs
3. Differences in exploitation costs
4. Differences in subsidy schemes

4.3.1. Differences in construction costs

The construction costs of dwellings are composed of building costs, land costs and attendant expenses. The extent of these costs is dependent on numerous factors. For instances:

- of acquiring the land (thus also: scarcity of land);
- of developing land for building and providing access;
- distribution of land costs to the plots;
- of building material and raw materials;
- wages and wage developments in the building industry;
- mechanisation of construction; share of costs of capital goods to be attributed;
- development of labour productivity;
- efficiency of the organisation of the building project;

- the profits of the building company (thus also: the market position);
- the taxes which increase the cost price (income tax, company tax, VAT);
- the structural and residential norms respectively the town planning quality;
- the rate of interest and the building time required, which together determine the loss of interest during the construction period.

In view of the multiplicity of factors which play a part in both sectors it is difficult to make a pronouncement on differences in costs. Whether the project will be cheap or expensive depends almost entirely on local conditions. Excessive costs for the land acquisition and/or development of the land for building can be reimbursed by the government by means of capital transfers (site subsidies, redevelopment and reconstruction grants). In the case of a development plan whereby the municipality gives out the land plots and a building contractor builds both subsidized and unsubsidized dwellings, there are, however, two factors which cause differences in costs between the sectors: the distribution of the land costs to the plots and the profits of the building company.

By the selling of the land, the more heavily subsidized the dwellings are to be built on a plot, the cheaper the plot is sold. If the price drops below the cost price, then this is recovered on the plots in the unsubsidized sector. Even so, a building contractor cannot and may not make as much profit on housing act dwellings as on non-subsidized dwellings, other things being equal. These two factors soon account for differences in price up to 15% for exactly the same dwellings as between housing act dwellings on the one hand and cheap owner-occupier housing on the other hand.

4.3.2. Differences in financing costs

The differences in financing costs between a Housing Act dwelling and a fully mortgaged owner-occupier dwelling are as follows:

	rent	owner-occupier
term of the loan	50 years	30 years
redemption system	accruing annual instalments	fixed annual instalments
residual value	0	0
interest on govt. loan	x%	
on capital market	x + 0,7%	x + 0,7%
costs of concluding loan	0	2,5%

All these differences contribute towards high (initial) costs in the owner-occupied sector. Since 1975 in the Netherlands the financing of the rented sector runs via loans which the government makes available to the housing associa-

tions, whereby account is taken of future rent increases (5% per annum) and increased costs (7,5% per annum for the share of running costs). This makes it possible to reduce the initial rent. It occurs more and more frequently that the housing association cannot get any further loan from the government, but has to borrow itself on the capital market. In this case the interest percentage appears on average to be 0,7% higher. This results not in a higher rent but in a higher building and exploitation subsidy. This higher percentage has also to be paid by the owner-occupiers on the capital market. The owner-occupier can mortgage his house in various ways. The most common way is a mortgage loan which is paid back in fixed annual annuities in 30 years. The interest can be set at a fixed level for 1, 5 (most common), 10 or 30 years (see also section 4.4.2.)

4.3.3. Differences in exploitation costs

In calculating the initial cost price rent of rented dwellings account is taken of the expected rent increases. It is thus possible to set the initial rent at a lower level than with the traditional rent calculation on the basis of a fixed annuity. If one is working on the basis of an accruing rent, then it is also logical to include future developments of exploitation costs. The following costs, which rise over time, have been included in the costs price rent calculation (in percentage of the construction costs).

- 0,8 % for maintenance costs and general management and administration costs
- 0,27% for taxes
- 0,03% for insurance premiums (for storm damage and fire)
- 0,10% for loss of rent in case of vacancy

Except for loss of rent these costs also exist in the owner-occupied sector.²⁾

If the owner-occupier spends a lot of time on maintenance work himself instead of having it done for him, then the relevant opportunity costs must be charged out to the housing costs.

4.3.4. Differences in subsidy schemes

A. Building and exploitation subsidies. As has been explained above, the cost price rent is worked out with a dynamic calculation of costs and benefits. Taking interest at 12%, and the growth rates as given, the initial cost price rent comes out at 9,3% of the construction costs. On account of the dynamic calculation this cost price rent increases by 5% each year. The rent which the occupier would have to pay, the gross rent, is determined at 4,5 to 5,5% of the total investment, dependent on the size of the dwelling. The difference is made up in the form of a building and exploitation subsidy. The level of this subsidy depends with this method of calculation on the level of the interest. This interest does after all influence the cost price rent, whilst the rent remains constant.

In the owner-occupied sector there are building and exploitation subsidies for owner-occupied dwellings, the construction costs of which are between fl. 142.000,- and fl. 177.000,-. The building subsidy amounts to (maximum) fl. 5.500,- with construction costs of fl. 142.000,- and (minimum) fl. 2.700,- with construction costs of fl. 177.000,-, thus on average 2,7% of the construction costs.³⁾ Thus the gross initial housing costs in the owner-occupied sector amount at 12% interest to: 12,4 (fixed annuity at 12% interest and a 30 year term) + 1.1 (exploitation costs) - 2.7 building and exploitation subsidy) = 10,8% of the construction costs. In this sector a change in interest finds expression in a change in housing costs and not, as in the rented sector, in a change in the subsidy.

B. Rent allowances/ consequences for income tax. Tenants of dwellings with a maximum rent of up to fl. 8.040,- a year are entitled to the receipt of rent allowances if their costs are too high in relation to their income.

The percentages of table 20 (next page) represent the norm for the housing costs:⁴⁾

If the construction costs are fl. 110.000,- (1982) and the rent is set at a percentage at 5, then the rent amounts to fl. 5.500,-. The taxable modal income in 1982 is fl. 29.534,- so that the gross rent is too high according to the norm (18,62 instead of 15,76%). The net rent is reduced to fl. 4.967 (16,7%), whereby ultimately in the case of the modal income in the rented sector 4,5% of the construction costs represents the nett rent.

In the owner-occupied sector we saw the housing costs amounting to 10.8% of the construction costs. The subsidy (2,7%) is taxed via income tax, the interest element of the annuity (first year about 12,2%) is deducted and a sum is added on again for imputed rent ($60 \times 1,3 = 0,8\%$). With a marginal tariff of 50% this means that the gross housing costs are reduced to 6,6% of the construction costs.

To recapitulate: at 12% interest the following differences in housing costs occur between the rented and the owner-occupied sector for newly constructed dwellings given the modal income.

Table 19: Annual housing costs as a percentage of the construction costs for newly constructed dwellings (12% interest), The Netherlands, 1982.

	rent	owner-occupier
1. financing and exploitation costs	9,3	13,5
2. building and exploitation costs subsidy	4,3	2,7
3. Gross rent/owner-occupier costs	5	10,8
4. rent allowance/tax benefit	0,5	4,2
5. nett rent/owner-occupier costs	4,5	6,6
6. nett costs after influence of difference in construction costs	3,8	6,6

Table 20: Taxable income and norm for rent-income ratio, The Netherlands, 1982.

Taxable income (guilders/year)	Norm for rent as a proportion of income (norm rent ratio)
to 21.500	11,13
21.500-22.000	11,29
22.000-22.500	11,64
22.500-23.000	11,99
23.000-23.500	12,35
23.500-24.000	12,70
24.000-24.500	13,05
24.500-25.000	13,40
25.000-25.500	13,75
25.500-26.000	14,10
26.000-26.500	14,45
26.500-27.000	14,80
27.000-27.500	15,15
27.500-28.000	15,46
28.000-29.000	15,59
29.000-30.000	15,76
30.000-31.000	15,93
31.000-32.000	16,09
32.000-33.000	16,26
33.000-34.000	16,43
34.000-35.000	16,60
35.000-36.000	16,77
36.000-37.000	16,94
37.000-38.000	17,10
38.000-39.000	17,27
39.000-40.000	17,44
40.000-41.000	17,61
41.000-42.000	17,78
42.000-43.000	17,95

If we assume that the additional costs in the rented and the owner-occupied sector are the same, then a newly built owner-occupied dwelling is nearly 75% more expensive than a comparable rented dwelling in the first year. This difference applies where there is a modal income. Where the income is lower the rent costs drop (more rent allowance) and the owner-occupier costs rise (less tax benefit) and the difference thus becomes greater. On the other hand where the income is higher, the gap becomes smaller and buying a house may even be cheaper than renting one.

4.4. Development of housing costs at the micro level

This section examines three different developments in housing costs:

1. development of the housing costs of new dwellings
2. development of the housing costs of dwellings in the housing stock
3. development of the initial costs of new vintages of dwellings

4.4.1 Development of housing costs of new dwellings

In the rented sector it is assumed in calculating the initial rent that the rents increase each year by a certain percentage. This assumed percentage now stands at 5%. In reality the trendwise rent increase percentage amounts now to 6%. This percentage must be applied for all dwellings built less than 10 years ago, and for all other dwellings provided the rent and the quality are in reasonable relation to one another. The net proportion of income absorbed by housing costs (nett rent/taxable income) increases over time as the rent increase is greater than the rise in income, and vice versa (see section 4.4.2.). In the owner-occupied sector the subsidy decreases each year by 10% of the initial amount, with a maximum of fl. 500,-. Thus the housing costs are also rising in this sector. In view of the extent to which subsidies are being cut back it occurs comparatively frequently here that the percentage of income absorbed by housing costs increases (see chapter 3 for quantitative elaboration of this point).

4.4.2. Development of housing costs in the housing stock

Each year the government determines the so-called trendwise rent increase percentage. In fixing this percentage the following factors are of importance:

- a. *Rise in building costs.* In order to have the rents of the various vintages of dwellings on a par with each other it is desirable that the rents should undergo the same development process at the rise in building costs (less a deduction for obsolescence for which 1,5% is generally taken) :
$$r = b - 1.5^*$$
- b. *Rise in exploitation costs.* In the housing stock it is important that the exploitation costs, which rise faster than the building costs on account of labour intensity and the scanty possibilities of mechanisation, are compensated by a rise in rent. If there is a share of 25% of the exploitation costs in the total costs then: $r \geq 0.25 e$.
- c. *Development of income.* In view of the fact that expenditure on housing forms one of the largest spending categories of households, control of housing costs is of importance in order to avoid overtaxing the available spending scope in the event of a stagnation of income. This is also important since an increase in housing costs makes itself felt in the wages via the price index and thus also in the costs of trade and industry. If these costs are to be

controlled in a period of recession, then it is desirable to have a limited rent increase: $r \leq i$. However, from van der Schaar's figures (chapter 3) it can be concluded that during recent years it is more a question of $r > i$.

*

- r = percentage change in rent
- b = percentage change in building costs
- e = percentage in exploitation costs
- i = percentage change in income

The trendwise rent increase percentage applies to all dwellings where the rent and the quality are in reasonable conformity. For dwellings which are relatively cheap in view of their quality, a higher percentage is applicable, and in the rare cases where the rent is already relatively high, a lower percentage applies. The result is that on average the rent increase exceeds the trendwise percentage and is thus in danger of outstripping the income rise.

In the owner-occupied sector the development of housing costs is dependent on interest and the course taken by house prices. This latter factor in particular causes a great difference in the costs of dwellings in the housing stock in the rented and the owner-occupied sector. In the rented sector there are annual adjustments to the historical cost price rent. The costs may rise considerably on account of these increases, but since they are coupled to the historical cost price rent, excesses are ruled out. In the owner-occupied sector, however, the market value of the dwelling is taken as the basis for the housing costs. Each transaction on the market produces a new price, which results in housing costs for the owner-occupier. Based on the fact that the dwellings in the existing housing stock are not in receipt of a subsidy, the net costs of the owner-occupied dwelling amount to about 7,8% of the market value (see section 4.3.4.) In a period when prices rise very rapidly (in the Netherlands the period 1975-1978) and many people move, this means a rapid rise in the average expenditure of households on housing. In a recession period these costs drop back very slowly, since there is a decrease in particular the number of moves.

The question is, however, as to whether the rise in these housing costs with rising property prices is felt as such by the owner-occupier. For owner-occupiers who move from one (self-owned) house to another (self-owned) house the higher housing costs do not constitute a problem, since in moving they make an untaxed capital gain on the old house. The new house can be partly financed by means of this capital gain. In determining the housing costs in section 4.2. the financing costs are defined as the interest due on invested capital. The price of the new dwelling is higher and thus also the capital to be invested and the housing costs. In this situation the capital gain should be viewed as an addition to the income. For owner-occupiers who move house the rising property prices lead to realised capital gains and thus higher incomes and at the same time higher housing costs. Owner-occupiers who do not move house remain at the same level of housing costs and with the same income.

The threshold of the owner-occupied market for those entering the housing market for the first time and for tenants is becoming increasingly high on

account of the mounting property prices. The amount which has to be invested is constantly on the increase, whilst it is not yet possible to benefit from it in the capital sphere.

A rise in the rate of interest is the second determining factor in the development of housing costs for owner-occupied dwellings in the housing stock. For owner-occupiers who do not move house, the mortgage adjustment period is of importance for the question as to how quickly a change in interest makes itself felt in the housing costs. Dependent on the year in which the mortgage was raised the adjustment periods are as follows:

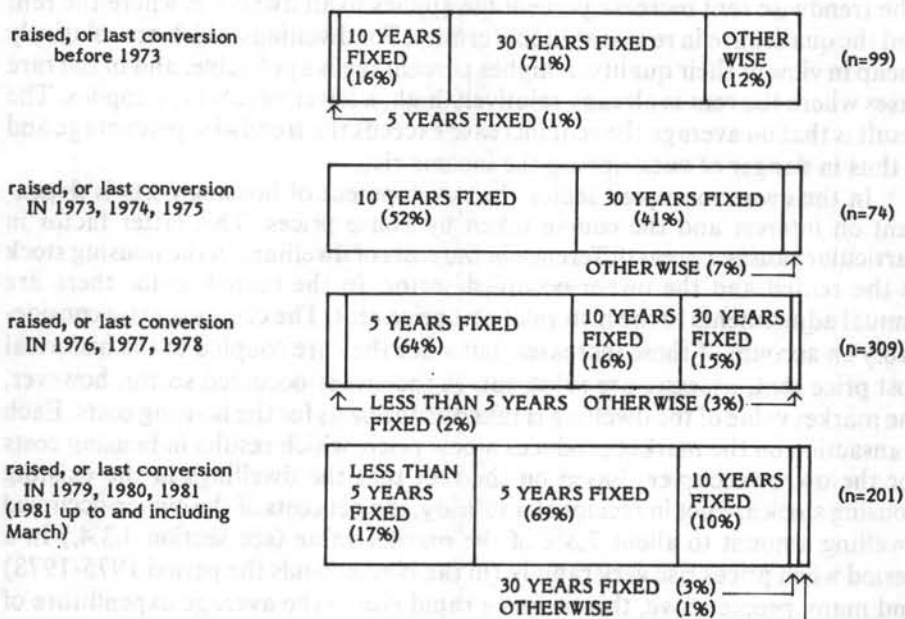


Fig. 18. *Mortgage adjustment periods, The Netherlands, before 1973-march 1981.*

4.4.3. Development of initial costs of new vintages of dwellings.

Since 1974 policy has been based on the so-called modal housing price ('volkshuisvestingsprijs'). This modal housing price is the rent of newly built dwelling, whereby a tenant with a modal income receives no rent allowance. If each vintage of dwellings is to be attainable for the same income bracket whilst the subsidy system remains the same, then the condition applies that $c = i$.

From the figures of Van der Schaar (chapter 3) it appears that since 1974 $c > i$. On account of qualitative improvements in the dwellings their initial costs have continually increased, but this increase has been more rapid than the rise in incomes. In practice after 1974 it was even so that $b > i$, so that in total the ratio was $c > b > i$.

Now that the economic prospects show that the rise of income lags behind the building costs, the only way to achieve new housing construction, which is

still payable, lies in reducing the quality, or $c < b$.

The story is quite different for the subsidized owner-occupied sector. In this sector there was no modal housing price policy. If there would be such a policy then this would have led to very high subsidies on account of the rising interest rate. By the absence of such a policy the increased interest rate, in combination with the improvement in quality, has led to newly constructed housing becoming accessible to an ever decreasing number of groups. Summarising it may be said that in the past 5 years $c > b > r > i$ was valid and that for the coming years the aim must be $r < c < i < b$.

4.5. Development of housing costs at the macro-level

The previous section showed that the rise in quality leads to an increase in housing costs per dwelling. This applies to the individual case, thus at the micro-level. The greatest "improvement in the quality of the national housing" is to be found in the expansion of the housing stock. The growth in the number of housing services has been taking place ever since the introduction of statistics, with the exception of short breaks during wartime and so on. Together with the improved quality of the stock this leads to increased growth in the volume of housing consumption.

growth of	1976	1977	1978	1979	1980
housing consumption	6	5,5	5,5	5,5	5,5
private consumption	5,7	4,9	3,7	2,5	0

Source: Centraal Planbureau, Centraal economisch plan 1980 (central economic plan 1980)

From the table it can be seen that the growth in the volume of housing services rises more rapidly than that of the total private consumption. This extra consumption has of course to be paid for. Greater consumption also means a rise in the percentage of income absorbed by housing costs at the macro level (rent ratio R_m). The extent of the rise partly depends on the relative price increase in housing and the growth of the disposable incomes.

$$\text{If we define } R_m \text{ as } \frac{C}{DI} = \frac{N_{hs} \times P_{hs}}{N_h \times I_h}$$

whereby: C = macro housing costs
 N_{hs} = number of housing services

(N_{hs} = percentage change in no. of housing services)

- Phs = average housing costs per housing service
 Nh = number of households
 Ih = average disposable income per household
 DI = total disposable income of all households

The number of housing services is in turn composed of the number of dwellings and the average quality of the dwelling ($N_d \times Q_d$). The denominator of the fraction consists of the total disposable income of all households. If this total income remains the same and the number of households rises, then naturally there is a decrease in the average income per household.

$$\begin{aligned} DI &= N_h I_h \\ D^0 I &= N^0 h + I^0 h = 0 \\ N^0 h &= -I^0 h \end{aligned}$$

The percentage change in the housing costs/income ratio can now be formulated as follows:

$$R^0 m = N^0 d + Q^0 d + P^0 h_s - (N^0 h + I^0 h)$$

Where DI remains the same the formula is:

$$R^0 m = N^0 d + Q^0 d + P^0 h_s$$

If the price per housing service also remains constant, then the percentage rise in the amount of income absorbed by housing costs is equal to the increase in the growth of volume in the consumption of housing services. In 1980 this rose by 5,5%. However, the percentage of income absorbed by housing costs rises faster, since the assumption that $P^0 h_s$ is nought is incorrect. In the rented sector alone there has been a real increase of 1% in $P^0 h_s$. This will amount to more in the owner-occupier sector on account of the rise in interest. If we set $P^0 h_s$ at 1, the housing costs/income ratio already rises by 6,5%. However, BI has not remained constant either. In 1981 there was a real decrease of about 1% The conclusion is that in 1981 the housing costs/income rose by 7,5%. In the Netherlands it amounted to about 17%, which had become 18,25 a year later. If this trend continues for 5 years the amount will have risen to nearly 25%.

Was does this calculation teach us? In the first place that the housing costs/income ratio at the macro-level give virtually no information as to whether or not households in a particular country spend much or little of their income on housing. This housing costs/income ratio is strongly influenced by the volume of housing consumption. A high percentage of income absorbed by housing costs indicates far more that there is heavy consumption of housing services, or expressed in other units, that the average number of occupants per dwelling is low. Conversely a low percentage of income absorbed by housing costs at the macro-level means that there can still be a great shortage of housing. Statements, that the inhabitants of a certain country are prepared to spend a

great deal on housing, which are supported by data on the housing costs/income ratio at the macro-level in various countries, will have to be critically considered.

One may certainly not conclude from such a proposition that the housing costs should therefore be increased (P^{ohs}). It could also be concluded that great efforts must still be made to eliminate the housing shortages. The relationship between the housing costs/income ratio and the average number of occupants per dwelling can also be expressed somewhat more directly in a formula.

Where DI remains the same and there is an unchanged relative price level for housing, then $R^om = N^od + Q^od$. If the quality also remains constant then $R^om = N^od$ (1).

The average number of occupants per dwelling is defined as $AOD = \frac{N_o}{N_d}$ or in percentage changes: $AOD = N^o - N^d$. If the population remains constant ($N^o = o$) then $AOD^o = - N^d$.

If we put this in formula (1), then $R^om = - AOD^o$ or in other words the rise in the housing costs/income ratio is directly proportional to the decrease in the average number of occupants per dwelling. So if we want to make an international comparison of housing costs, it is insufficient only to look at the macro housing costs/income ratio. A high ratio can be explained in numerous ways:

- It is possible that the occupiers has to pay much for housing as a result of low subsidies;
- It is possible that the housing stock is relatively new and of a high quality;
- It is possible that the housing stock is very large in comparison of the number of occupiers (a low average number of occupiers per dwelling).

By an international comparison of housing costs a description of the housing situation in each country is indispensable.

4.6. The position of housing costs in the family budget.

As was mentioned in section 4.2. it is not always easy to draw the demarcation line for housing costs. The notion of housing costs can be limited to the costs attached to simply acquiring the right of disposal over housing accommodation, but it can also be more broadly defined, whereby the inevitable user costs (e.g. property tax and cleaning charges) also come under housing costs. Using an even broader definition the costs attached to the supply of gas, electricity and water are included in the notion of housing costs. The latter costs can in principle be influenced by the consumer according to the intensity of use. The various costs are in part complementary to each other. For instance, higher rent resulting from insulation measures in respect of higher heating costs. These are demarcation problems which can still be dealt with by using strictly defined

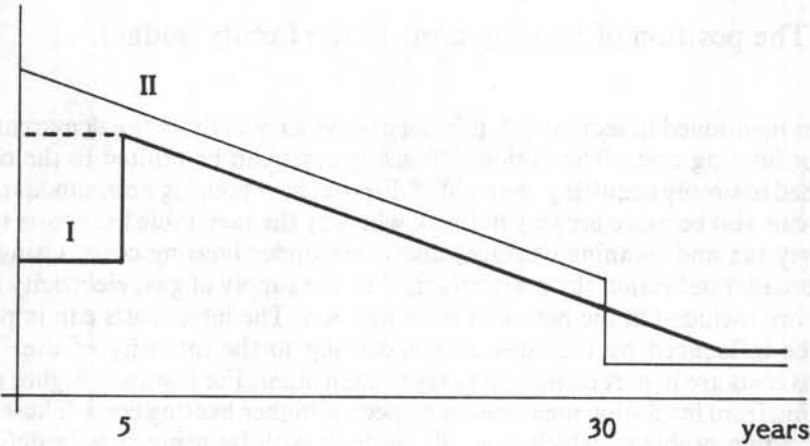
terms. It becomes more difficult when we start comparing the housing costs of particular households with one another and draw conclusions as to "too cheap" or "too expensive" housing. This is not really possible since expenditure on transport and recreation, for instance, can also be complementary to the housing costs. Two examples can clarify this problem. The tenant of a single family house in a big town probably spends more on housing than the tenant of a similar dwelling in a cheap location in the country. If in both cases the place of work is in the town, then the higher housing costs counterbalance the lower transport costs. In this example housing and transport costs are complementary. This can apply equally to the costs of a house with a large garden in relation to a house with a small garden and the possession of a caravan in a recreation park. Sitting in ones own garden counts as residence, whilst sitting beside the caravan counts as recreation according to current definitions.

A similar type of problem occurs with the spreading out of housing costs, over time. With the present forms of financing the purchase of a house is accompanied by heavy financial burdens, particularly in the first few years.

As a result of having managed to meet these high initial costs people expect in general to be able to live comparatively cheaply later on. Thus measuring the housing costs at one particular point in time by means, for example, of the amounts paid in interest/redemption, does not give a good picture of the priority accorded to housing by the household in question. The picture is determined to a large extent by the question as to which stage of its housing career the household is in and how that household prefers to spread out its housing costs. Figure 19 gives a stylised picture of the level of housing costs of two households measured in percentages of income. Household I rents a comparatively cheap house for 5 years and saves up to buy a house which can after purchase be partly financed with the household's own money. The expenditure on housing in the

housing costs in % of income

Fig. 19. *Stylised development of housing costs for two households (see text).*



first few years is fairly low; the saving on housing amounts, however, to a fairly large sum. Households II buys a house immediately and finances this for 100% with credit capital, with the result that the starting costs are fairly high. Compared to household I the mortgage will be paid off 5 years earlier, after which the annual costs drop back to consisting solely of maintenance and other variable costs.

Thus measuring the housing costs via a cross section may produce incorrect information per household on the priority accorded to housing (for example, saving for a house is not taken into consideration), but need not necessarily produce a seriously distorted picture of reality if we proceed on the assumption that many of the differences in housing costs are averaged out.

For government measures, which are to a great extent directed towards individuals, if a just housing costs policy is to be pursued, the demarcation problems in measuring housing costs call for more information than simply the present level of housing costs and income. Taxing households which at a given moment have comparatively low housing costs may involve injustice, just as well as simply subsidizing households with (temporarily) high housing costs. An all too rigid housing costs policy could well overlook these characteristics connected with the spreading of the financial burden and the demarcation of costs.

The same applies to the question as to which notion of housing costs should be used for policy purposes. Just the basic rent or also the service costs? Since the rise in the price of energy all the consumer organisations are in agreement that heating costs also belong to housing costs and should therefore in principle be eligible for subsidy. Indirectly that is already the case. On account of the higher prices for energy, it pays to insulate the dwelling against loss of heat. This leads to a drop in the gas bill, but there is an increase in the rent, which is, however, partly discounted by means of the rent allowance. In this way the Ministry of Housing and Physical Planning pays part of the higher price for oil.

Which items really belong to the government's notion of housing costs forms a permanent subject of discussion. Up to now property tax has been considered to be part of the housing costs. If the local authorities' field of taxation is expanded, and at the same time national income tax is decreased, then the higher property tax will no longer be considered as housing costs, but as an ordinary tax with the dwelling as the "coincidental" basis of the charge.

However, the policy aspects of determining housing costs are easy compared with the determination of a household's income. On account of the heterogeneous nature of households it is impossible to determine the financial capacity of each household by means of a simple formula. A great deal depends on the number of people with an independent income. The first factor refers to the costs of children (including those living away from home!) or other persons (e.g. parents) who are chargeable to the family budget, whereby the costs involved are again closely connected with age and activities (studying, working). The second factor, the number of incomes, point to the problems of measuring the

financial capacity of households when there are several people contributing to the income. Does the income earned by the partner count as heavily at that of the principle wage earner? If the second income is only earned for the purpose of being able to spend money on luxuries (e.g. expensive holidays) and is in addition to an already high basic income, then this is to be viewed in a different light from the work performed by a partner in a household where the principle wage earner is disabled and only receives a minimum social benefit. Can the income from two part-time jobs of two partners count as heavily as the fulltime job of the head of another household where there is only one income? To what extent does the income of early schoolleavers count in the family income?

What is meant by temporary cohabitation and when can cohabitation be said to be of a permanent nature, so that it is relevant to talk about a joint income? All questions which play a part in determining the financial capacities of the household and thus in determining the housing cost policy. Raising questions which are impossible, or almost impossible to answer is not done with the object of being able to label all housing costs policies as unjust in advance and then make a plea for a general incomes policy. Assuming that the latter is undoubtedly the most rational way of pursuing policy, but also realising that all sorts of secondary objectives of a government cannot then be realised, people in almost every country will be inclined to pursue a more or less stringent housing costs policy. It is demanded of this policy that it should provide a certain amount of room for specific situations. (that there should be no unjust charges, as few unjust subsidies as possible) that it should be clear and consistent (determination of incomes and housing costs) and that it should be sufficiently flexible to be quickly adaptable to changes in society.

Section 4.5. ended with the conclusion that by an international comparison of housing costs a description of the housing situation in each country is indispensable. In relation to this, the conclusion of this section is that not only a description of the housing situation is indispensable, but also a description of the spending pattern of consumers and government and a description of the differences which influence the income distribution (social security, possibility to work for women). In particular this last factor has a great influence on the household formation and thus on the housing situation.

4.7. Conclusions and summary

Housing costs in the newly constructed rented dwellings sector are, especially with the present rate of interest, considerably lower than those in the owner-occupied sector. The dynamic calculation of costs and benefits in the rented sector produces a low starting cost price, which is still further lowered by the building and exploitation subsidies in particular. In the owner-occupied sector subsidisation takes place much more at the individual level via the income tax facilities. With interest at 12% the nett rent structure is given in table 19.

Housing expenses in both the rented and the owner-occupied sector rise over time. In the rented sector this is the result of rent increases and in the owner-occupied sector the result of the diminution of the building and exploitation subsidy.

The housing costs of newly constructed dwellings have increased every year. This is mainly due to the continual increase in the quality of housing. This rise in the initial construction costs was thus greater than that of the building costs. Since the growth of income has lagged behind, there are fewer and fewer people who can afford these dwellings. Thus the watchword for the future is : economise. During the last five years it was a case of $c > b > i$, in the next few years the aim will be to alter this into $c < i < b$.

At the macro-level housing costs are increasing as a proportion of income mainly on account of the growth of the stock, whereby the total of housing services rises much more rapidly than the total private consumption. This extra consumption finds expression in an ever increasing proportion of income being spent on housing costs at the macro-level. But this ration gives no information on the level of housing costs in a particular country, though it does provide information on price and number of dwellings related to the total income.

It is therefore very difficult to make a pronouncement on "too high" or "too low" simply by considering the level of housing costs. Not only at the macro-level but also at the micro. High housing costs can, for example, be compensated by low transport expenses and vice-versa.

Demarcation of the notion of housing costs permanently encounters problems. Many consumer organisations nowadays count heating costs as part of the housing costs. Naturally the next step is to be able to claim a subsidy. In order to be able to make a normative pronouncement on the level of housing costs the relationship with income is also of importance. But which income gives the best indication of the household's financial capacity? Only that of the principle wage earner or man and wife together; which is the influence of capital gains in the owner-occupied sector? If an international comparison of housing costs is to be made, then all these questions will first have to be answered.

NOTES TO CHAPTER 4.

1. For a short description of each scheme and its distributive effects see chapter 2.
2. The owner-occupier may not have the risk of vacancy, in stead of this he has the, much greater, risk of capital gains/losses as the result of changing house prices.
3. For cheaper owner-occupied dwellings (fl. 142.000,-) an income dependent subsidy is applicable: fl. 8.400,- with a taxable income of fl. 20.000,- decreasing to fl. 3.000,- with an income of fl. 30.800,-.
4. These percentages apply to dwellings up to a certain level of rent. If a person lives in a more expensive dwelling, then he is expected to pay a larger share of the rent himself. The actual proportion of income absorbed by housing costs is higher in this case.

HOUSING COSTS AND ABILITY-TO-PAY; A PERSPECTIVE FOR THE EIGHTIES.

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5.1. Introduction

Housing problems tend to be concentrated among the lowest paid. On average people are better housed according as their ability to pay is greater. According to neo-classical views this is above all a matter of preferences. It is a fact that people with high incomes have high aspirations, and it is likewise a fact that people with low incomes are often prepared to settle for relatively little on the housing market. The principle of consumer sovereignty is claimed to lead to the phenomena observed. However, it is quite safe to assume that here the differences in budget are decisive; people with low incomes are often *obliged* to accept relatively poor housing. If there are housing shortages all round, incentives in the field of property subsidization are self-evident. Property subsidies can have a supply-mobilizing effect, but when the aim of the authorities is to strengthen the market position of people with low incomes, property subsidies are not effective. They often prove to go to residents with a higher than average income (Social and Cultural Planning Office, 1981). The housing situation of people with low incomes would be indirectly improved, via filtering, but in practice it appears that the hard-pressed groups can expect little relief from this incomplete filtering.

This text investigates what instruments of housing costs policy exist for improving the residential situation of the lowest paid. The analysis is directed towards instruments that are related to the residents' ability-to-pay. Under the motto "housing according to ability-to-pay" various implemented and proposed systems can be placed which will be reviewed below. The pro's and con's of these systems will be discussed. Considerable attention will be paid to a system of "income quality housing costs". The whole will be concluded with some conclusions and recommendations.

5.2. Free individual assistance highly ineffective as an instrument of housing policy

American authors in particular (Muth, 1969; De Leeuw and Ekanem, 1971), but also for instance Prud'homme (1981) advocate an income-dependent subsidy which the - poor - residents involved are entirely free to spend, not being tied for instance to the housing sector. Under the largescale Experimental Housing Allowance Program (EHAP) set up in the USA in 1972 a large percentage of the residents could spend the subsidies as they wished. However, this was on condition that they lived in a dwelling of a certain minimum quality. The size of the allowance was fixed by the following formula (Lowry, 1976, p.25):

$$(1) \quad A_n = R_n - .25 Y$$

$$(2) \quad Y_n (\text{max}) = 4 R_n$$

where:

A_n = size of the allowance;

R_n = standard costs of decent housing
in the municipality

Y = corrected gross income

} differentiated
according to
size of household

Both tenants and owner-occupiers qualified for this allowance. The following are stated to be advantages of this instrument:

- consumer sovereignty is respected; given the budget line, the highest indifference curve is attained;
- the housing market can operate as a "free" market. Residents have to make their own choice and establish contracts.) There need be no fear of bureaucracy or of price distortions on the housing market.

However, experience with the EHAP was disappointing. When people were free in their spending, only 10% of government assistance proved to be spent on housing. If households moved, their housing costs rose by an amount equal on average to 83% of the allowance, but only 40% of this increase could be ascribed to the subsidization itself. For households that did not move this percentage was 29 (Bourne, 1981, p. 206-207). The dynamic effect proved to be limited. To a significant extent people chose a different type of dwelling or a different type of neighbourhood. There appeared to be no obvious price effect, nor could any effect on new construction be seen. There was no sign of any furtherance of racial integration (via greater accessibility of favourite neighbourhoods for people with low incomes) or of an improvement of neighbourhoods. British experience proved to be similar (Trukto et al., 1978).

A system of free allowances fits into the Wicksell-Lindahl tradition, according to which distribution objectives should be directed towards primary and secondary income (via incomes and taxation policy). In this view there is no place for redistribution objectives within a policy sector. In the Netherlands this attitude towards housing has been defended by R.M. de Haan (1970).

When individual assistance is introduced as an instrument of housing policy, aimed at strengthening the relative market position of people with incomes (and we take this objective as our basis), American experience indicates that free individual assistance is highly inefficient. Above all consumption in other fields than housing is encouraged by it.

Garfinkel (1973) argues that the answer to the question of the extent to which "in-kind redistribution" is desirable depends on the preferences of taxpayers and recipients of subsidies with regard to redistribution in money or in goods and on the social welfare function of "the community".

The argument that tied assistance is inefficient applies only if the taxpay-

ers have no preference for redistribution in goods. This implicit assumption of many welfare economists has never been verified, according to Garfinkel (see also Scitovsky, 1964; Buchanan, 1968; Pauly, 1967; 1971; Lindsay, 1969).

The social welfare function of the community may differ from the sum of the welfare functions of the individual citizens. Although the empirical material collected is not convincing (Wilner et al., 1962; Duhl (ed.), 1963; Burns et al., 1970), it may be assumed that bound up with poor housing area negative *external effects* (health, productivity, scholastic performance etc.) which can be warded off by specific strengthening of the effective demand. Muth (1969, p. 333-335) finds no proof of any connection between poor housing and disease, crime etc. but in that case he certainly interprets the literature in a very one-sided way. Against Muth's reference to Wilner et al. (1962) one can set the survey by Wilner and Walkley (1963), who analysed forty studies of the link between housing and health and found that 26 of these studies revealed a positive connection between housing and health, whereas only three studies reported negative findings. The remaining eleven demonstrated either no relation or a doubtful one. When the government invokes the external effect motive to justify a certain intervention on the housing market (Gruyters et al., 1974), that is certainly not unfounded. A second motive for government intervention is the *underestimation motive*, i.e. the government is of the opinion that the value of a facility is underestimated by the - potential - users. The good in question is regarded by the government as a merit good (Van 't Eijnd et al., 1982). Muth (1969) calls this motive a paternalistic argument, and so it is. Nevertheless, that need not be a reason for rejecting it. There will often be differences between results of a referendum or a national opinion survey (indication of the sum of individual preferences) and the results of parliamentary decision-making (indication of collective preference). Because the decision-makers are (or think they are) better informed (notably on the consequences of measures and the interrelation of phenomena), collective decision-making may lead to other results than the sum of the individual decisions.

A third motive for justifying government intervention on the housing market is the *justice motive*. This motive relates to amenities to which, according to the government, everyone is entitled in a given situation but the costs of which would make such a hole in the household budget that actual use to the desired extent is out of the question (Van 't Eijnd et al., 1982). Above all in housing, where the amenity forms a relatively large part of the household budget and where the government imposes a certain minimum quality via regulations in the building by-laws, the latter motive is an important one.

All in all there are sufficient motives for the government to justify a certain infringement of consumer sovereignty, which on a free housing market (with a mainly historically determined supply) has to be taken with a pinch of salt in any case.

The income-equalizing effect of individual assistance should incidentally not be overestimated. Property subsidies, which have been given on a large scale above all since 1945, have chiefly an unequalizing effect. Not to mention

the extremely unequalizing effect of the fiscal relief for owner-occupiers. If we take property subsidies and individual assistance together, it can be established that the equalizing effect of individual assistance compensates to some extent for the unequalizing effect of property subsidies, as a result of which the Dutch rent sector a set of instruments hardly affecting the income distribution may be observed on balance (Social and Cultural Planning Office, 1981). A housing allowance need not conflict with the Wicksell-Lindahl tradition, provided that it is placed in the right context.

5.3. Tied individual assistance with free prices: the danger of price reactions

When we postulate the function of individual assistance *as an instrument of housing policy*, tied individual assistance is indicated. The government can marshal sufficient motives for providing such assistance. In the first instance we assume housing allowances combined with free rents and free purchase prices. According to many, the advantage of this model is that the housing market can be "free": no detailed government intervention is necessary for the regulation of rents or purchase prices. Housing allowances offer more scope for private investors on the housing market than property subsidies do (Wynen, 1962, p.4). Some will regard it as an advantage that the suppliers of housing services receive via rent increases and price increases additional returns which they will convert into maintenance and improvement of the dwellings and their environment. However, it is on this same point that the criticism is concentrated too. Various researchers (De Leeuw and Ekanem, 1971; Dasso, 1968; Howenstine, 1975; Rydell, 1976) have pointed to the danger of short-term rent increases (even fanning inflation) which are not accompanied by more maintenance, more improvement of dwellings or more new construction. In many cases there is not the slightest guarantee that the operator's profit is spent in housing. Some query the conformity to market principles of this instrument (Dasso, 1968). Owing to the fact that the individual rents (= rents minus housing allowances) may come to serve as a criterion for the tenants, a certain "disturbance of the market" may occur. If a supply effect *does* occur (more improvement, more new construction), it is the question whether this effect is intended, and further whether property subsidization would not fulfil this function more efficiently. Some (such as Dasso, 1968) call it an advantage of housing allowances that the improvements are "ubiquitous" and not linked to a project, and that in addition subsidized new construction does not have to be performed on a project basis either (Lowry, 1976), but if it were a question of marshalling supply on the housebuilding market, property subsidization is undoubtedly superior to individual subsidization (Duwendag, 1967a; 1967b; Floor, 1971; Van den Doel, 1972; Van den Doel and Van den Doel-Grondsma, 1972) The danger of rent and price increases is not only a problem for the short term; at some locations

(attractive suburbs; central locations in the city) and in some submarkets the shortage will be practically permanent. In these attractive submarkets lessors, landowners and financiers threaten to pluck the fruits of a scheme which ultimately reduces the housing costs of weak groups of residents to only a limited extent. Tied individual assistance with free prices may be effective, measured against the aim formulated above, but the instrument is certainly not efficient.

5.4. Tied individual assistance with regulated property prices: problems of implementation

Above all the danger of increases in housing costs argues against a system of tied individual assistance with free prices. A solution can be found in a system with tied individual assistance in which basic rents (= rents excluding housing allowances or housing levies; (see chapter 4) are regulated.

This system has, in different variants, developed in Western Europe since the end of the sixties. In an earlier stage an extensive system of property subsidies had come into being here in combination with drastic rent control. When it was assumed that the worst housing shortages had been eliminated, thought began to be given to restoration of free market relations: gradually raising rents to the assumed market level and leaving them free, and cutting back on property subsidies, in short a "return to normal". Meanwhile the housing market and housebuilding market had been so conditioned by property subsidization and rent control that rapid abolition of the property subsidies would have had unsettling consequences, especially for residents in the low-income groups. Thus the idea soon arose of a supplementary housing allowance, aimed directly at these groups, which would alleviate the effects of the introduction of a policy of decontrol. Around 1970 such supplementary schemes were introduced in many Western European countries. According to Howenstine (1975) the proportion of housing allowances in the total of housing subsidies in 11 Western European countries in 1970 was already 21%. He rightly notes that "... this overall shift towards consumer subsidies basically reflects not a replacement of, but rather a supplement to, production subsidies".

In the Netherlands a supplementary housing allowance scheme was introduced in 1970: since 1975 the scheme has been of a general nature. Today about half a million households in rented dwellings receive allowance. A mixed system of property subsidies and housing allowances has been advocated in the Dutch literature by many authors (Floor, 1971, Van den Doel, 1972; Van den Doel and Van den Doel-Grondsma, 1972; Zuidema, de Wolf and Sperling, 1976).

In this connection various formulas are conceivable, such as:

- relating assistance to the basic rent²): the difference between a standard rent (determined in accordance with a standard rent ratio per income cate-

gory) and the basic rent is bridged wholly or partially (via a percentage reduction) ³⁾ via the housing allowance; this system is applied in the Netherlands;

- relating assistance to the basic rent²⁾ including heating costs, whereby a large percentage of the heating costs is in fact subsidized by the housing allowance (Schaefer, 1980);
- relating assistance only to household's income, irrespective of the property rent and irrespective of the quality of the dwelling (this undiluted principle of "housing according to ability-to-pay" is discussed in section 5.7.);
- relating assistance to the quality of the dwelling: the better the dwelling, the higher the housing costs to be borne by the occupant (a system of this kind is discussed in section 5.8.).

The tied individual assistance can be directed towards the entire housing stock (rented and owner-occupied dwellings), to the rent sector or to parts of the rent and/or owner-occupied stock.

The advantage of this system is that the "advantages" of individual assistance are passed on 100% to the residents concerned. Measured against the aim formulated above, this result is ideal. A disadvantage may be that two rent concepts come into being for the residents: the basic rent and the rent less housing allowance (= the net rent). Because the policy aimed at getting the resident used to the individual rent and because the resident, who in the long term is often not certain of a permanent flow of housing allowances, frequently reckons with the basic rent, a certain form of money illusion occurs (Lucassen and Priemus, 1977). The problems with regard to housing allowances are strongly concentrated in the field of implementation (Page and Weinberger, 1975; Lucassen and Priemus, 1977; Schwertz, 1966, Frommes, 1970; IFHP Committee on Rent and Family Income, 1970):

- applicants must undergo a means test every year; many are embarrassed about providing periodical information on their income position (Howenstine, 1975; G. de Haan, 1969);
- the variables that play a part change often, so that an extensive organization for administration and supervision is required and high costs of implementation occur (Howenstine, 1975);
- to be able to determine households income, it will have to be established inter alia who forms a household with whom. Checking this information is precarious, since the protection of privacy is involved here;
- applicants are uncertain as to whether they will get a subsidy, especially in the somewhat longer term. The scheme can change, mistakes may be made, the "small print" may be overlooked etc. (Arnoldussen and Van de Ven, 1977);
- fixing the size of the subsidy is a complicated procedure which it is difficult to clarify for outsiders (Howenstine, 1975). Applicants often need aid from others and become dependent on that aid;
- the progression effect is a nuisance (Kertzman, 1974), a general problem of income prices. When the income of the subsidy recipients in question

increases, a very large part of this gain lost through the cumulation of higher taxes and lower subsidies (G. de Haan, 1969).

All in all, implementation of the subsidy scheme can be a problem. The red tape - according to Dasso (1968) "a real threat" - can throw up considerable barriers for the residents. Downs (1973, p. 29) points out that the objections to housing allowances often lie in the emotional plane. It is for many a frightening thought that occupants of dwelling of the same quality receive different subsidies.

5.5. Tied individual assistance with regulated individual prices: an unexamined variant

In the preceding section we pointed out that in the system described the residents are concerned with two rent concepts: the basic rent (= after property subsidy) and the net rent (= after property subsidy and housing allowance). Since 1976 the Netherlands has had the procedure of so-called *rent restraint*, which entails that the tenant pays the landlord the net rent from the start. The landlord receives an advance from the State equal to the housing allowance. Any differences are settled afterwards between the landlord and the authorities. Under this procedure, which now applies to most residents entitled to a subsidy, the resident therefore never gets his hands on the housing allowance. This procedure makes the resident increasingly accustomed to the net rent, but when the annual discussions are held on the rent adjustments as on 1 July, all concerned usually reckon in percentages of the basic rent. It would be logical development if the system were to be consistently formulated in terms of net rents, whereby the rent adjustments would also be expressed in percentages of the net rent. At constant standard rent ratio's the net rent would then rise (or fall) at the same rate as incomes. If the development of building-plus-land costs and the development of incomes should differ greatly, problems occur, but it may be assumed that, taken over a somewhat longer period, the development of incomes is about identical with that of building-plus-land costs minus an ageing factor (Priemus, 1978, p.307). In section 5.8. we shall further elaborate this interpretation of "housing according to ability-to-pay" outlined there. For the time being we shall confine ourselves to the remark that this system presupposes active government intervention and a monopoly of the non-profit rented sector with landlords who are prepared to perform public tasks too and that separate attention will have to be paid to the possible introduction of this system in the owner-occupied sector.

5.6. Tied individual assistance and individual levies with regulated prices: debates in the Netherlands

In 1964 the "Report on the introduction of individual rent determination" of the Alozerij Committee was published, in which not only the basis was laid for the housing allowances introduced six years later but also the idea of a tenants contribution was put forward. This contribution would have to be demanded of occupants of social housing who exceeded a certain income limit and evidently enjoyed the benefit of property subsidies undeservedly. The tenants contribution would be connected with the level of income, but would never be higher than the amount of the basic subsidy: thus on balance one would never pay more than the cost price based rent.

On 27 february 1962 the Minister of Housing and Building, J. van Aartsen, had sought the advice of the Provisional Housing Advisory Committee on the question whether or not measures had to be taken to prevent as far as possible social housing being occupied by households with an income higher than the average local workers' income. On 26 november 1963 Bogaers, who had succeeded Van Aartsen, extended the request for advice to the occupants of subsidized dwellings in general. In its recommendation of 8 April 1964 a majority of the Provisional Housing Advisory Committee advised the Minister not to promote the introduction of a rent tax.

The Housing Needs Survey of 1964 revealed that the size of the problem of occupants of social housing with "too" high incomes was greater than has been thought: 25-30% of the occupants of social housing were found to have an income above the limit applicable to social insurance. On the strenght of this Bogaers submitted a Bill (the Tenants Contribution Bill) on 7 november 1966 in which a lump-sum levy was imposed on occupants of social housing, which served two purposes:

- the furtherance of filtering through the stock of social housing;
- alleviating the government's burden.

In the interim the Provisional Housing Advisory Committee had given in. On 5 October 1966 The Provisional Committee made a majority positive recommendation. The Second Chamber of Parliament adopted the Tenants' Contribution Act, but it foundered in the First Chamber. The then Minister (Schut) had to confine himself to a circular (7 November 1969) to local authorities and the boards of housing associations in which those concerned were exhorted to assign expensive dwellings as much as possible to the less well-to-do. In 1974 the matter came up again, now in a somewhat different form. In the "Rent and Subsidy Policy Memorandum" Minister Gruyters and his two junior Ministers introduced the proposal of a filtering levy, applicable to *all* rented dwellings, to be imposed on tenants with a relatively very low rent/income ratio. In the discussion of the Memorandum in the Second Chamber, Parliament resolutely rejected this idea.

Despite these political failures, the filtering levy was dusted off again in 1981, not primarily for reasons of housing policy but above all as part of the

changes in government spending that were considered necessary. In the "Reconsideration of Collective Expenditure Memorandum" the filtering levy was presented as a new source of income for the government. In 1981 and 1982 it was repeatedly affirmed that the Ministry of Housing and Physical Planning was seriously examining the matter, although the enthusiasm among residents was extremely small (Consumentengids, 1981).

Advocates of a filtering levy argue that a levy according to ability-to-pay contributes to a "fair" distribution of housing costs and, because it encourages filtering, leads to an effective use of the stock. More affordable dwellings would become available in the stock for people with low incomes. Moreover, such a levy would take some of the strain off the budget of the Ministry of Housing, or would render possible certain expenditure on behalf of that Ministry. A member of Parliament for the Christian Democrats, Dijkman, spoke of a "solidarity levy" that could contribute to making new subsidized dwellings affordable.

Opponents of the filtering levy use very different arguments. In progressive circles the emphasis is placed above all on the unequal treatment of the rent and the owner-occupied sector. Such circles would be prepared to consider a levy if this were also to apply to the owner-occupied sector (which would encounter great technical difficulties of implementation, and other problems). Moreover, they often have an ambivalent attitude towards the automatic encouragement of filtering. The increasingly one-sided nature of the composition of the population of poor dwellings (low incomes) and of good dwellings (high incomes) respectively condemns people with low incomes to poor housing on a permanent basis and may breed segregation and ghetto phenomena.

Quite different counter-arguments are also adduced. For instance, many wonder what the legal basis is for a filtering levy. Why is it wrong for someone with a high income to live austere? Thanks to the individual rent allowances better dwellings are within financial reach of residents of limited means. Consumer sovereignty would be needlessly thwarted by a filtering levy. The situation becomes even more dubious when the well to do resident in question is not housed relatively badly of his own free will but more or less obligatorily on account of the shortage on the housing market. He would then be punished twice by a filtering levy: once for living relatively badly against his wishes (often with the active cooperation of the authorities via a housing allocation policy) and once for being taxed additionally for that, without being able to move on to a "more appropriate" dwelling. It is moreover curious that an instrument should be utilized to encourage filtering in a sector where filtering is already much greater than in the owner-occupied sector, where introduction of a filtering levy is usually not considered. Finally, there is the argument of the problems and costs of implementation. In the Parliamentary debates on the various proposals it emerged that residents are sharply opposed to a filtering levy, rent tax or housing tax. The change of large-scale avoidance or evasion of such a measure is a considerable one. Partly because of that, the costs of collection are in danger of becoming very high, according to some about as high as the probable proceeds. Implementation is already problematic in the rent subsidy sphere, which may be described as "socially accepted" and where the relatively

willing and easily verifiable groups (old people, recipients of benefit) predominate. But if one were to introduce a filtering levy involving all tenants, including better-paid, inventive categories of tenants with higher incomes, then an exponential growth of the problems of implementation looms. The tax authorities in particular react very sceptically to the possible introduction of a filtering levy.

5.7. "Pure" housing according to ability-to-pay: housing costs as a fixed percentage of income, "free" housing and large-scale distribution

The most rigorous elaboration of the principle "housing according to ability-to-pay" is that in which housing costs are linked to income. In this interpretation, which we shall call the pure principle of housing according to ability-to-pay the *quality* of the dwelling is not considered at all. This implies that in principle everyone pays *a certain percentage of income*⁴⁾ for housing, irrespective of the quality of the dwelling occupied. In this way income is in fact completely dropped as a selection factor on the housing market. The pure principle of "housing according to ability-to-pay" is based on the assumption that housing costs have been entirely detached from the market value of the dwelling. This means that income too is detached from his value.

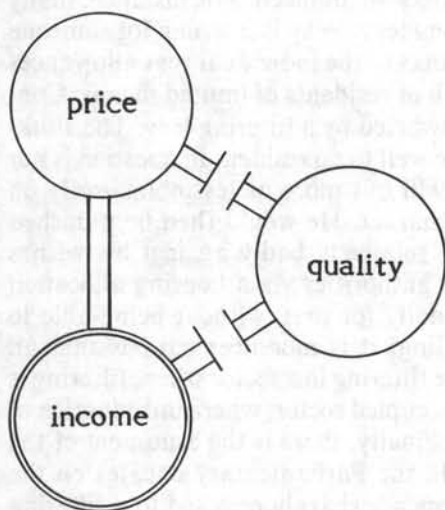


Fig. 20. Detachment of the price-quality relation in the pure principle "housing according to ability-to-pay."

In this situation housing costs seem to acquire the same status as expenditure on social benefits; for old-age pensions and the like one also pays a certain percentage of income and receives a quid pro quo which per individual is detached from the amount that has been paid.

For the occupant of a dwelling this situation appears in fact to mean that the dwelling becomes a *free* good, a benefit "free of charge": he deducts expenditure on housing from his gross income. Given the net income with which he normally reckons, the dwelling costs him nothing. Needleman (1965, p.168) shrinks from this step from "housing according to ability-to-pay to "housing as the consumption of a free service".

In the Netherlands the idea of "free housing" has been defended only by Buitelaar, Kling and Kraemer (1977). However, they admit that they came forward with this idea "unexpectedly and without giving it proper consideration", and in their publication they do not deal either with the gigantic problems to be expected.

The idea of the allocation of free goods ("free sharing": Russell) is an old socialist hobby-horse. Lange (1964, p.140-141) found this principle, applied to part of the goods, not at all so utopian. He had in mind goods for which the demand is inelastic: "If the price of such a commodity is below, and the consumer's income is above, a certain minimum, the commodity is treated by the consumer as if it were free good".

In this case the want is saturated by the goods. Example: salt, bread, soap. If the price is *low*⁵) and the income so high that the quantity consumed reaches saturation level, "free sharing" can be used as an allocation method. The price system can then be confined to the other products.

However, costs have to be charged for "free goods". The money income of the consumers must be reduced by the cost equivalent of these goods. "Free sharing" yields a socialized sector in consumption, financed via taxes. In the free West too we have such sectors, for instance education, health care (in part), public parks, street lighting etc.

The idea of housing as a "free service" fits into the framework that Sherman(1970-1971) outlined of the economics of "pure communism". Housing as a "free service" (free of charge or at a cost equal to a fixed percentage of income irrespective of the quality of the dwelling) has an important consequence: the rationing function of the market price vanishes. According to the assumptions that are made in traditional consumer theory, a price equal to 0 leads to an infinite demand, since man's wants are considered to be infinite. This assumption must be protested against. Sherman (1970-1971, p.27): "Even the anti-communist Wiles admits that, given present attitudes towards work and consumption, the rational consumer of Western economics a) has physical limits on the food, clothing and shelter he can use and b) wants leisure from consuming".

The demand for living accommodation is anything but infinite. It may, however, be assumed that provision of free housing will inflate the demand for accommodation to a level lying above what will be recognized socially as a want. The great complicating factor is that dwellings form a highly heterogeneous good:

- the locations differ;
- there are very great differences in technical quality and state of maintenance;

- there are great differences in dwelling size;
- there are great differences in fittings.

In brief, there are pleasant bungalows and splendidly situated villas, but also substandard dwellings in slums.

In a pure system of housing according to ability-to-pay these dwellings would all have to be distributed, without it being possible to call on the assistance of the price mechanism.

That means large-scale distribution (IJmkers, 1973; Floor, 1971, p.149).

A distribution policy can be of great importance to the achievement of the objectives of housing policy. However, the task has to be a feasible one. If every household can acquire for the same price a good house and a poor one, then, perhaps after a brief initial period, the demand will concentrate fully on the best dwellings.

The introduction in full of the principle "housing according to ability-topay" therefore leads to a gigantic distribution problem, summoned up in part by the heterogeneity of dwellings. For the time being it is hardly conceivable that wants can be recorded and managed with sufficient objectivity to make a distribution problem of this kind capable of solution. Nor is it certain that the differentiation in needs matches the differentiation in the supply of dwellings.

Floor (1971, p.149) is apprehensive of the pure principle of housing according to ability-to-pay:

"Rent according to income is reasonably accepted if the phenomenon is confined to obviously weak groups. However, when it starts to occur on a large scale and also extends to the stronger groups, matters change. In general the latter categories will make the likewise not unreasonable demand of the system that in principle one pays for what one gets". It is Floor's opinion that the ability-to-pay principle is acceptable in education and health care, but not in housing. Moreover, vast numbers of people will want to filter to good dwellings if they do not in fact have to pay more for them. The supply is not geared to that, and so the authorities will then (p.149) "... have to concern themselves in an intolerable fashion with everyone moving into a dwelling" or the normative rent/income ratio would have to be raised drastically. The pure principle of housing according to ability-to-pay considerably looses the connection between the benefits and the burdens of housing. Since they can pass the burdens on to the authorities, households will try to step up their benefits as far as possible. This will lead to too much being asked of policy, to an extreme call on bureaucratic ingenuity, resulting either in stifling government interference or in steadily growing government impotence. Social acceptance of the system will be low. The changes of avoidance and evasion of the system are considerable. A state of affairs in which the social status which one thinks one has attained cannot be appropriately reflected in one's home will meet protests over a broad front.

If one is seeking a satisfactory (and workable) housing costs policy, then at least the relation between housing costs and quality will have to be introduced. The relation between housing costs and income does not have to be abandoned when so doing.

5.8. Towards a system of income quality housing costs⁶⁾

5.8.1. Introduction

If we work towards a level of housing costs which is related to income and quality, that endeavour accords with the wishes of many residents, as evidenced by the answers of various groups of tenants to the question to what extent certain aspects ought to influence the rent of a dwelling (Lucassen and Priemus, 1977, p.127).

On the basis of the answers of various categories of tenants (both recipients of individual rent allowances and tenants who receive no individual rent allowances) Lucassen and Priemus find that, according to the residents, housing costs should be determined on the one hand by the qualitative characteristics of the dwelling and its environment and on the other by the occupant's ability-to-pay, whereby the housing market situation may not have too much influence.

5.8.2. Income quality rent

The most consistent elaboration of the above would amount to a system applicable to *all* dwellings (both rented and owner-occupied) in which the housing costs are directly dependent on income and quality. The quality should be rendered operational by a points system and/or class system (which is already in use in the Netherlands as part of the rent adjustment policy applicable to the whole rent sector.⁷⁾ This approach has been developed in Priemus, 1978. In what follows this system is briefly described, chiefly in relation to the rent sector. The introduction of this principle into the owner-occupied sector is not elaborated; this matter is touched on in Section 5.10.

What does an income quality rent consist of?

To start with, one could express the housing costs for the occupants in a percentage of taxable income⁸⁾, the percentage being higher according as the dwelling is in a higher quality class.

In equation form:

$$U = f(I,K) + E$$

where:

U = total expenditure on housing

K = income

K = quality (according to points system/class system)

E = variable operating costs

The percentages could be set in such a way that everyone has a reasonably large choice, the choice of a better dwelling making bigger demands on income and -

austere - new construction being within the financial reach of residents with a typical income (the principle of the "volkshuisvestingsprijs = modal housing price" applied in the Netherlands). We could then for instance create a table looking like this:

Table 21: Quality class and housing costs-income-ratio (example 1)

Housing costs as % of taxable income	for a dwelling in quality class:
≤ 10%	1 ('very poor')
11-12%	2
13-14%	3
15-16%	4
17-18%	5
19-20%	6
21-22%	7
23-24%	8
25% and more	9 ('very good')

In this way the influence of inequality of incomes is largely neutralized, while the resident, in making his choice on the housing market, can allow the priority that he attaches to housing to count. The table can be compiled and adapted in such a way that, given the allocation criteria and given the qualitative distribution of the dwellings in the stock, effective occupancy of the stock is furthered (cf. the technique of Lange and Taylor, 1964). If one shrinks from the approach in principle in which the effect of income differentials is *entirely* eliminated, one could still envisage - notably in a transitional period - a partial ability-to-pay principle, according to which differences in income do have an effect on the housing market, but then in a strongly moderated form. With respect to the skew distribution of rent ratio's then observed, one could in this way bring about a less skew distribution step by step.

In that case use could be made of a table constructed as table 22 (next page).

In the choice of the relation between quality class and housing costs-income-ratio a link can be established with the decreasing marginal utility of money in higher-income groups. In this context the progression of income tax can be taken as a proxy: a specific, more or less socially accepted operationalization of the principle "costs according to ability-to-pay". One can keep on manipulating such tables until the given supply of accommodation is precisely removed from the market. In a complicated fashion the market may be imitated. It is more obvious deliberately to aim at an equalizing effect whereby shortages occur in the one sector and surpluses in the other. The greater the equalization

Table 22: Quality class and housing costs-income-ratio (example 2)

annual taxable income of household in guilders	housing costs as % of taxable income															
	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
≤ 10,000	1	1	1	1	1	2	2	3	3	4	4	5	5	6	6	7
10,000-15,000	1	1	1	1	2	2	3	3	4	4	5	5	6	6	7	7
15,000-20,000	1	1	1	2	2	3	3	4	4	5	5	6	6	7	7	8
20,000-25,000	1	1	2	2	3	3	4	4	5	5	6	6	7	7	8	8
25,000-30,000	1	2	2	3	3	4	4	5	5	6	6	7	7	8	8	9
30,000-40,000	1	2	3	3	4	4	5	5	6	6	7	7	8	8	9	9
40,000-50,000	1	2	3	4	4	5	5	6	6	7	7	8	8	9	9	9
50,000-75,000	1	2	3	4	5	5	6	6	7	7	8	8	9	9	9	9
> 75,000	1	2	3	4	5	6	6	7	7	8	8	9	9	9	9	9

pursued, the more extensive are the distribution problems.

The most satisfactory system seems one in which - given the qualitative level - there are constant housing cost-income-ratios per income category, whereby in the lower-income categories measures have to be taken to guarantee the affordability of - austere - new construction. This may possibly lead to *declining* standard housing cost-income-ratios among the lower-income categories, according as income is lower. Steps must be taken to avoid the incorporation of such a progression that the instrument misses its target as an instrument of housing policy.

Technically, the system could be operationalized in simple fashion by charging per income category a variable amount in guilders per quality point.⁹⁾ The quality of a dwelling (inclusive of its environment) is expressed in points. Per point occupants with lower incomes pay for instance f 1,- in monthly charges, occupants in the middle categories for instance f 2,- and those in the higher-income categories for instance f 3,-. Various degrees of detailing are conceivable.

5.8.3. Integrated property subsidies/housing allowances

How must we picture to ourselves the implementation of a housing costs system in which the size of the regulated housing costs (W) depends on quality (K) and income (I) plus the variable operating costs (E)?

First of all:

$$(1) U = W + E,$$

Where U = total expenditure on housing; and where:

$$(2) W = f(K, I).$$

For the operator, however:

$$(3) L = f(N, V) + E + O,$$

where

L = costs of the operator

N = costs of new construction incl. land costs (or purchase sum)

f(N) = capital charges on new construction costs incl. land costs (or purchase sum)

V = any improvement costs

f(V) = capital charges in improvement costs

E = variable operating costs

O = other non-variable operating costs.

Equations (1) and (3) can be linked together if the aim is a financially balanced operation.

In that case

$$(4) L = U + S$$

where

S = subsidy

Per dwelling an operating subsidy is therefore necessary if the housing costs dependent on quality and income (= the net rent) are lower than the basic rent required for a balanced operation. The subsidy referred to here is both an *individual* one (dependent on I) and a *property* one (dependent on K). There seems little point in making a distinction here between a property subsidy and a housing allowance. It seems simpler to work with an *integrated property subsidy/housing allowance*.

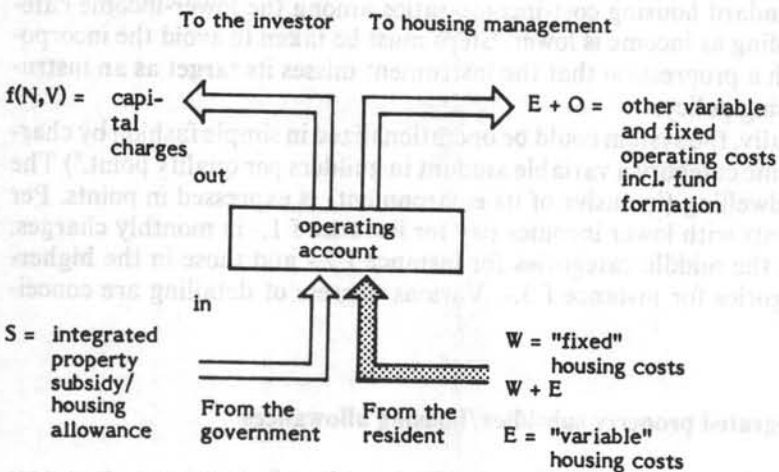


Fig. 21. *Housing operation with the use of an integrated property subsidy/housing allowance.*

In the above set-up the individual elements infiltrate the operating account. The occupant pays $W + E$; the rent adjustments are formulated as a function of W . The lessor receives from the State an integrated property subsidy/hou-

sing allowance the size of which is therefore partly dependent on occupant characteristics (shaded arrow).

Now:

$$\text{income} = W + E + S$$

expenditure = $f(N,V) + E + O$, so that the operating equation reads:

$$f(N,V) + E + O = W + E + S, \text{ therefore:}$$

$$f(N,V) + O = W + S$$

The advantage of the situation outlined here is that the occupant is concerned with one concept of housing costs, the individual housing costs.

This simplification, which is of such importance to the housing market, is made at the expense of a more complicated operating account.

The set-up outlined above could be coupled with annual adjustments of housing costs of which the general trend should be set by the government. Every year the amount per quality point can be adjusted by the government at a rate equal to the structural development of wages, which is considered to be about equal to the development of building-plus-land costs less an ageing factor of 1 to 1½% a year.

5.8.4. Some consequences

A housing costs system as outlined here only has any point to it if the lessors in question are prepared to "pass on" the subsidy to their tenants, are prepared to operate in a framework in which rents and rent adjustments are regulated to a large extent by the government, and are prepared to reserve from some funds for ordinary and major maintenance. Experience in the past suggests that private landlords are not inclined to operate in such a framework (failure of the "Wet Grootboek Woningverbetering": Housing Improvement Ledger Act). *The framework referred to therefore requires a type of non-profit lessor prepared also to pursue goals of housing policy.*

His books will have to be arranged not only for payments by tenants but also for the government's subsidies and levies. A further consequence of the system outlined here is that the whole stock has to be *registered* and that a *points system* is used with the aid of which the dwelling can be placed in a quality class on the basis of the registered characteristics. In the Netherlands one can build on the experience gained with the points system used in the rent policy applicable at present. It goes without saying that the system outlined here requires a good data bank with up-to-date information on taxable income (link with tax authorities) and with information on physical characteristics of the dwelling (link with a real estate records system also on behalf of distribution policy, urban renewal policy etc.). These data can be used on a decentralized basis; one might advise local or regional housing offices which can perform other housing tasks too (urban renewal, notification, distribution of accommodation).

A third important consequence that can be attached to the introduction of the equation $W = f(K,I)$ is that relating housing costs to quality and income

requires application not only in the *stock* but also in the new construction and renovation sector. As a result the way in which rents are fixed would hold good for the whole rent sector.

Introduction of the equation $W = f(K,I)$ into the new construction and renovation sector makes it possible, *once a qualitative level has been formulated*, to determine the housing costs *beforehand* (i.e. before building or improvement), whereby the link with the actual building-plus-land costs or improvement costs recedes into the background (as is also the case in the rented dwelling stock). The project level prices on the housebuilding market are detached from the use on the housing market.

The philosophy which is already current according to which the subsidies have a balancing function is further extended in this way.

Unpleasant surprises in performance of the work (work in excess and in less, and so on), insofar as not accompanied by a change in quality, can therefore no longer lead to unpleasant surprises in housing costs for the residents. This entails two consequences:

- a. The need for close *checking* by the authorities of new construction and renovation costs, because otherwise there is no restraint at all on these costs;
- b. a close connection between *standard setting* in the new construction and renovation sector and the valuating system by which the concept "quality" is operationalized in the stock.

The detachment¹⁰⁾ of housing costs policy from cost price based rent means, as remarked, that price determination on the housing market at micro-level is detached from price determination on the housebuilding market. Decisions on the housebuilding market therefore do not follow directly from impulses on the housing market (which often lead to wrongly timed and wrongly proportioned reactions) but from a deliberate programming of housebuilding activities in which the bodies managing the housing stock can play an important part.

5.8.5. "Built-in" housing allowances and "built-in" housing levies

In the above it has been left an open question whether the income quality rents are applied only insofar as this rent is lower than the property rent (i.e. in relation to a "built-in" housing allowance) or whether the system is applied in full, i.e. also in relation to a "built-in" housing levy. There seem to be three reasons for also considering the introduction of "built-in" housing levies:

- a. only working with subsidies makes such great demands on public funds that within housing too "sources of income" must be tapped to lighten the budgetary burden;
- b. pursuit of a "fair" distribution of housing costs means not only that the weaker groups are assisted somewhat, but also that the stronger groups are restrained some what;
- c. once one switches to individual housing costs, it increases the simplicity

and the transparency of the housing market if this principle is ultimately introduced *in full*.

Above all account of the considerations voiced in b. and c. there seems to be much to be said for also adhering to the same formula past the point where the basic rent equals the net rent. For as a result the last remnant of basic rent loses its practical significance. The people with higher income lose in the cheaper part of the stock some of the additional chances that they have vis-à-vis the people with lower incomes. Incidentally, the effects of such a levy on the housing market should not be overestimated. It is the question whether filtering is furthered by it, for instance. That depends on the quantification of the relation $W = f(I, K)$.

The conclusions that one attaches to the above depend in fact on the content that one gives to the concept of "fair" distribution of housing costs. If one finds an overall determination of housing costs on the basis of income and quality the best operationalization of the concept of "fair" distribution of housing costs, one will be *in favour* of built-in levies. If one finds the formula $W = f(I, K)$ relevant as an operationalization of the concept of "fair" distribution of housing costs only insofar as $W < f(N, V) + O$, then one will be *opposed* to such levies. Even if one is in favour of built-in levies, it is an obvious conclusion that a gradual introduction of the housing costs policy outlined here will not begin with levies but at most will regard the introduction of levies as the finishing touch.

5.8.6. Concluding observations

Throughout the system outlined above housing costs are related to quality of the dwelling and income. Thus someone with a given income pays more for a better dwelling than for a poorer dwelling. And for a given dwelling someone with a higher income pays more than someone with a lower income. The background to the latter is that the differences in chances on the housing market as a result of differences in income are considerably reduced. A housing costs system of this kind calls for:

- a simple value system to be laid down by the authorities and accepted by those concerned;
- a range of standardized housing costs-income-ratios to be determined by the authorities;
- regulation to rents and *also* regulation of transaction prices. For without such regulation market prices would put in an appearance again. For the owner-occupied sector this means an additional problem in the introduction of the principle of income quality housing costs;
- operation of rented dwellings and owner-occupied dwellings in which subsidies form a balancing item and in which the size of the subsidies depends on the occupants' income, i.e.;

- an *integration* of property subsidies and housing allowances into one subsidy (which in the situation outlined may also occasionally have a negative value) in which both property elements (= characteristics of the dwelling) and individual elements (= characteristics of the occupant) are discounted;
- housing costs which at project level are detached from what remunerative operation requires. The profit motive is banished from housing. Discrepancies between housing costs and the requirements that efficient non-profit operation makes are bridged by the integrated property subsidies/housing allowances;
- housing costs that at project level are detached from the building-plus-land costs. To put it another way, at micro-level the prices on the housing market and those on the housebuilding market are detached from one another. That calls for a major verifying role of the government in the appraisal of land and building costs. It creates the possibility of guaranteeing rents as soon as the sketch designs are ready, in both new construction and renovation.

The outlined set-up introduces the need for an overall distribution policy, the instrument par excellence which is needed to achieve one of the aims of housing market policy: the pursuit of a just distribution of the available accommodation consistent with differentiated wants in accordance with criteria and priorities formulated via the democratic process.

Both a social housing costs policy and a social distribution policy presuppose considerable changes in the present tenure and management of housing.

5.9. Problems in the operationalization of housing according to ability-to-pay

The outlined method has a certain attraction from those who attach great importance to a just distribution of housing costs and living accommodation. The housing shortage is concentrated among the lowest paid categories, who moreover have the highest rent ratios in respect of their income. Fixing prices in accordance with income and quality seems to offer a solution to this problem. However, in the operationalization of the method numerous problems and side-effects occur. We shall try to give a survey of these below.

I. Need for intensive supervision, chance of large-scale sabotage

1. Implementation of the scheme requires that the composition of a household, and who belongs to it and who does not, is known unequivocally. According as the stereotype picture of a family with children loses ground, the chance of confusion grows. Permanent cohabitation and group-sharing of accommodation can be both concealed and staged (depending on whet-

her a given construction works out better). Judicial separation may occur, but can also be feigned. Young people living on their own way may be a reality, but can also be suggested. According as the individualization of members of the household grows, the unequivocal demarcation of households becomes more of a problem. Because these are matters which directly concern one's personal life, effective supervision is in general impossible in our political and social system.

2. The picture of households with one breadwinner employed full-time is being increasingly replaced by pluriform patterns. Often there are several breadwinners in one household, whether or not with a part-time job. The number of recipients of benefit (old-age pensioners, jobless, disabled and so on) is increasing.

There is an unmistakable trend in the direction of an individualization of incomes. It will become increasingly difficult to establish the income of *households*.

3. In general checking on incomes is in itself a precarious business. The tax authorities have their hands full keeping untrue returns within limits. Feige (1981) estimates that already some 25% of national income is not returned or returned at too low a figure. This percentage is rising quickly. According as it becomes more remunerative to feign a low income, more citizens will try to lead the tax people up the garden path. Housing according to ability-to-pay supplies a strong additional reason for fraud.
4. Income is a quantity strongly subject to change. As a result of alterations in the composition of the household, the loss of a job, taking up unemployment, changing jobs, being promoted, changes in benefits and through general wage developments, the household income changes constantly. This calls for a constant adjustment of housing costs in accordance with the development of income. The changes in the incomes of independent entrepreneurs (liberal professions, tradespeople) form a problem in themselves, in addition to the difficulties of checking these fluctuating incomes.
5. The moment of determining the income is of great importance. If housing costs are charged in accordance with ability-to-pay, current income should be the criterion. In practice one is often obliged to refer to the income of the previous year. Especially in the first and last phases of the family life cycle, great changes in income may occur from year to year. For young people that means a ready opportunity to receive financial assistance to which they are not entitled; for older people it is a chance to receive too little assistance. The check on income data via the tax authorities comes years later and, partly as a result of this, has limited effectiveness. Should the data of the tax authorities be used for determining the income to be taken into account, there is the danger that the income of a few years back will be used as a criterion, having regard to the delay with which tax data become available. Effective checks on income data by the tax authorities means a heavy burden on the latter.
6. Owing to the changeable nature of the data an annual return of relevant information, such as income, is unavoidable. This implies that in fact an

- annual means test, with all the attendant drawbacks, is also inevitable.
7. The social acceptance of housing according to ability-to-pay is strongly limited by the fact that with individual fixing of rents according to ability-to-pay individual aspects infiltrate the lessor's operation. The Dutch non-profit rent sector already has as part of individual rent subsidization the procedure of "rent restraint", under which the tenants pay the rent minus individual subsidy and the State settles the individual subsidy with the lessor. This procedure means that the tenant's privacy in respect of the landlord is no longer guaranteed. In the private rent sector in particular (but also in the non-profit rent sector) this encounters fundamental problems. Moreover, it proves that the rent restraint is accompanied by high costs of administration for the lessor. This will be even more strongly the case if the principle of "housing according to ability-to-pay" is applied.
 8. If the tenant and landlord conspire together (e.g. in the case of small private landlords) they can together agree on a high rent at the expense of the Exchequer, which receives a claim for a high rent subsidy. The system presupposes a monopoly of non-profit lessors who are prepared to cooperate actively in accomplishing income quality rents.
 9. The status effect of the dwelling that one occupies is very great for many people. If such a redistribution of housing costs and housing quality is brought about that one can no longer express differences in income in one's residential situation, or cannot do so adequately, this will not be accepted by many people, notably in the middle classes.
 10. The dynamic effect of housing according to ability-to-pay may be that households with more than one - potential - breadwinner are encouraged to occupy more than one dwelling. They divide themselves up into several households (with a lower income per household) and are more strongly favoured by the housing costs system.
The encouragement of extensive use of space cannot be regarded as positive. It may be justifiable that for residents with a very low income financial assistance is mobilized to guarantee a minimum of space. If the merit good idea with regard to housing were to extend so far that increase in housing consumption is blindly stimulated all round, one could speak of misuse of the merit good idea.
 11. Income quality rents are an example of income prices. There are general drawbacks attached to the use of income prices, such as the increase in the marginal pressure (progression effect) and the envy that may be aroused among those groups that lose out compared with classic price determination.
 12. The system presupposes the availability of a clear, simple valuation system which is hardly controversial, if at all. Such a system is not available. The valuation system now in use in the Netherlands still displays many shortcomings. The system further presupposes a gigantic data bank in which the quality of the dwelling and the changes in that quality are stored. Such a data bank does not exist and can be developed only at considerable expense.

13. At dwelling and project level the costs are detached from the returns. That entails the danger of overconsumption and overstraining of policy, with regard to both housing operation and the development of new construction and housing improvement. Owing to the fact that the checking of contract prices and the determination of maintenance standards is a task for the State, the system inevitably entails a centralistic approach. Through the pressure of free riders a dynamism may well come into being which leads to an ever-greater part of housing costs being for the account of the Exchequer. The national budget may collapse under this pressure.
14. The idea behind "housing according to ability-to-pay" is that income is displaced as selecting factor in favour of other criteria in the sphere of socially recognized wants. This idea can be put into effect only if housing costs are regulated at not too high a level and an overall housing distribution policy can be followed. However, the latter possibility seems slight. The wants that are involved (medical and social indication, urban renewal urgency, economic ties etc.) are not unequivocal. They often call for the opinion of experts and wide possibilities of differences in interpretation by officials. The political decision-making that must form the basis for the criteria to be applied is often unstable and usually yields vague guidelines and/or guidelines whose consequences have not been foreseen. Lessors have great scope for sabotage, especially in the attractive parts of the stock (not reporting vacancies, informing prospective tenants incorrectly or simply refusing them, putting forward candidates of their own etc.) and will often apply a form of tenant selection themselves. For local authorities, the implementation of an overall distribution policy is probably too difficult a task.
15. Housing according to ability-to-pay constantly implies a dominating role by the government, not only with regard to allocation but also with respect to the financing, the subsidizing, the fixing of housing costs and management. Since redistribution is on a national scale, national funds are required and an account has also to be rendered at national level. The danger of continuous centralization, with accompanying phenomena such as fossilization and stifling interference, is great.
16. In a steadily growing economy a system of income prices means that on the subsidy side residents usually need a *temporary* subsidy. According as their purchasing power grows, they need less individual assistance. But when the economy makes a downward turn, matters are different. Then the subsidies threaten to become permanent and the national budget is in danger of being overburdened through the automatic linking of housing costs to income. In that case one must either economize on other items, or tap new sources of income (taxes), or may not meet the claims for the time being. In a persistent depression the change of the last possibility is considerable.

II. Limitations of housing according to ability-to-pay

1. Even if all the problems of implementation could be solved, countless limi-

- tations still remain. First of all, there is the problem of the large number of households with an income lower than the minimum income (young people, students, part-timers, small self-employed and so on). For them the problem is primarily an income problem. However, if the tables assume a minimum income, a large group of households are not helped.
2. The occupancy of cheap dwellings by people with reasonable to high incomes, in a system of housing according to ability-to-pay, is often wrongly regarded as socially undesirable. First of all, it is pleasant that a somewhat differentiated population lives in the less good dwellings. If poor dwellings, often concentrated together physically, are occupied by a population of very one-sided composition, this may create extra problems. Moreover, a low rent ratio may be accompanied by saving for a house of one's own and/or by high compensatory expenditure, e.g. costs of transport, of the costs of a static caravan or an allotment. Furthermore, it is possible that occupants have ended up in the cheap dwellings in question quite involuntary and/of with the aid of the authorities. The imposition of extra burdens may encounter resistance in such a situation. Common, highly important nuances of this kind may well be overlooked in a system of housing according to ability-to-pay.
 3. In practice ability-to-pay is expressed (in the absence of a better criterion) in taxable income. And yet this is a poor yardstick. After all, also of importance is what income *expectations* there are. In this connection the phase in the family life cycle and the size of the household are important. Moreover, it is no more than reasonable that the wealth of households is taken into account. In practice one will often be obliged to work with a rough-and-ready criterion of ability-to-pay, which impairs the effectiveness of "housing according to ability-to-pay".
 4. Ever-greater inroads are being made into the residents' budget by the costs of energy and other "incidental" expenses. These costs, which are largely inherent in housing, are rising quickly, now add a large amount to the basic rent, and soon will be of the same order of magnitude as the latter. If it is desired to involve energy costs in housing according to ability-to-pay under the motto "heating and lighting according to ability-to-pay", the result will be a highly futuristic operation, in which violence is done to the rationing effect of prices on the use of energy. If the "incidental" expenses are not charged according to ability-to-pay and have risen strongly, housing according to ability-to-pay is no more than an only partial solution.
 5. Introduction of the ability-to-pay principle into the owner-occupied sector seems extremely difficult, and for the time being even impossible. For this principle assumes that the prices of owner-occupied dwellings are regulated and moreover either that the interest rate is controlled or that the government comes to the aid of the whole owner-occupied sector in order to absorb effects of higher interest rates on the housing costs of owner-occupiers. The wealth aspect of the owner-occupied sector creates extra difficulties. In practice housing according to ability-to-pay threatens to be confined for the time being to the rent sector.

If housing according to ability-to-pay is in fact confined to the rent sector, that may play into the hands of builders, investors, mortgage banks and property developers. For it is to their advantage that tenants with the ability-to-pay are edged out of the cheaper parts of the housing stock in the direction of expensive dwellings for rent (for instance new construction) or of a home of their own. It should be borne in mind that then an equalizing instrument is built into the rent sector, whereas at present in this sector government aid to housing on balance benefits all income categories to about the same extent. However, in the owner-occupied sector the aid is concentrated in the highest-income categories. The difference in distribution aspects between the rent and owner-occupied sectors would be accentuated by the introduction of housing according to ability-to-pay into the rent sector only.

5.10. A provisional stocktaking

Summarizing, we note that, even in the event of complete introduction of housing according to ability-to-pay, only some of the problems are solved. The problems of implementation are considerable, and in the owner-occupied sector insurmountable for the time being. If housing according to ability-to-pay were confined to the rent sector, the gap between the - equalized - rent sector and the - unequalized owner-occupied sector would be increased. The problems of implementation are aggravated by the expectation that many will not accept the principle and will try to avoid, evade or in some other way sabotage the system. An effective check on the system seems unaffordable and would meet with opposition, since personal privacy would easily be breached. Those who protest the loudest against the present injustice of housing policy and ignore the rules on a large scale make to a certain extent a policy that could form an answer to their objections and criticism impossible.

Most of the objections mentioned also apply to individual rent subsidization, but in general in a less extreme degree. The greater part of the applicants are elderly and receive benefit. Checking income data on behalf of housing costs policy does not require much additional effort here. Moreover, usually no spectacular changes will occur in the income situation of this category. The number of residents involved in the scheme is somewhat limited (compared with a system that would apply to all tenants or all residents). When large numbers of citizens are assessed for sums of money of which they do not accept the justification, there is a much greater danger of abuse than when a smaller number of citizens can acquire subsidies. The housing goal of aid via individual assistance to weaker categories is much clearer and more convincing than the goal that is served by a housing levy, even if this is "built into" an income price. The former aims at guaranteeing certain minimum chances on the housing market for the lower-paid. The second aims at restraining the demand of residents with high incomes for very good dwellings to some extent in favour on the

demand from the less well-to-do. It should be realized that the built-in-housing levy has quite a different function from that on the filtering levy, rent or housing tax discussed in section 5.6, which latter aims only at having residents with high incomes move from (additionally taxed) cheap dwellings to (untaxed) expensive ones. In the outlined system of income quality housing costs the built-in housing levy is higher according as the housing quality is higher. For the time being an overall system of "housing according to ability-to-pay" is not feasible. The problems that have been sketched are too great. But as a prospect such a system can nevertheless guide the desired development of housing costs policy. Point by point we shall indicate a number of steps and aspects:

1. In every change made to the instruments of housing costs policy, supported by whatsoever motives, the redistributing effect should be estimated beforehand. Changes that relatively weaken the position to the lowest-paid on the housing market should be rejected. For the housing problems are concentrated in this group and the point of departure is a set of financial instruments from which the residents with high incomes already profit to a disproportionately high extent.
2. Consolidation of the individual rent subsidy, based on a statutory regulation, the closest possible integration with property subsidies, the pursuit of multiyear agreements and ultimately a switch from basic rents (property rents) to (individual) net rents as the basis for an annual rent adjustment deserve the highest priority in the rent sector.
3. Despite the criticism made of it, rent harmonization policy must be steadily continued. The valuation system should be evaluated and improved. Data bases should be built up in which the scores of the dwellings in accordance with the valuation system are stored. By trial and error an operational application of the quality concept will be furthered in this way, first in relation to rent adjustments in the stock, but as soon as possible also in relation to the fixing of rents after improvement of dwellings and new construction.
4. The greatest lack of equalization as a result of government intervention is found not in the rent sector but in the owner-occupied sector. In the latter adjustment will gradually have to be made to the tax system which will result in people with lower incomes profiting more in relative terms (and residents with high incomes less) from the imputed rent benefit and the excessive possibilities of deducting interest on mortgage repayments for income tax purposes.
5. The gulf between the rent and the owner-occupied sector is a great one. Owner-occupiers run considerable wealth risks. Partly as a result of that, the owner-occupied sector is poorly accessible to residents with a modest income. The introduction of a new "social owner-occupied sector" - closely linked to the non-profit rent sector - is to be recommended, with regulated transaction prices and a very limited selling and wealth risk for the occupants. In such a sector a good basis is available for the introduction of housing allowances for owner-occupiers. If affordable housing costs can be guaranteed in this sector, this new sector can grow not only from the tradi-

tional owner-occupied sector and new construction, but also from the sale of rented dwellings.

6. In the rent sector the process of extinction of the private rent sector will have to be guided by the authorities. The monopoly position of the non-profit sector growing here forms a favourable point of departure for the accomplishment of a social housing costs and housing distribution policy.
7. The introduction of a rent or housing tax or a filtering levy must be rejected. However, as the finishing touch to the development a "built-in" housing levy can be introduced, as a result of which quality-income prices come about throughout housing.
8. Strong groups of residents, also operating nationally, will have to develop and links will have to be established between these groups (both tenants and owner-occupiers) and the unions. They will have to make the development of income quality housing costs the subject of negotiations with both the government and the lessors. The relation to the development of and progression in primary and secondary incomes should be borne carefully in mind here.
9. Above all patience will be called for. Overhasty introduction of housing according to ability-to-pay will most probably have effect opposite to those sought. The problems - see section 5.9 - are considerable. Only by a gradual, well-thought-out development of policy can great social opposition be obviated. As long as such opposition is summoned up, the system is unworkable. For a long time housing according to ability-to-pay may perhaps be little more than a distant prospect. If, however, links are established with measures that are necessary in the short term and if one manages to resist the temptation repeatedly to lapse into an ad hoc approach, that prospect can fulfil an important political and social function.

NOTES TO CHAPTER 5

1. Lowry, 1976, p.21: "...their choices and their conduct as tenants or home owners are subject to the discipline of the market place".
2. When determining the basic rent one can also make a distinction between cost price based rents (without property subsidies) and rents actually paid that are made realizable via property subsidies.
3. In Dutch practice two percentage reductions are used; see for instance also Zuidema et al. (1976), who in their example apply a percentage reduction of no less than 67%.
4. For all kinds of reasons one can opt for a progressive or degressive link with income instead of a fixed percentage of income. Having regard to the progression in income tax, a progressive relation of housing costs to income is defensible.
5. With this condition Lange in fact excludes housing.
6. See Priemus, 1978, p.295-321.
7. Appendix I to the Living Accommodation Rents Order, order of 18 April 1979, Official Journal 1979, no.216.
8. The point of departure is that the taxable household income is the best (least bad) criterion of the ability of occupants to pay.
9. This idea has been put forward by H. van Fulpen.
10. Owing to the fact that the amount per point can be connected with the level of new construction costs (and the rent adjustment can be related to changes in building-plus-land costs), the detachment is not absolute.

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6.

THE REAGAN HOUSING POLICIES

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The Reagan Administration has essentially determined that no federal role should be played in housing. Therefore, it has been busy dismantling programs and repudiating policies developed over 50 years of bi-partisan support. The contrast is stark. Instead of housing production, it will produce fiscal deficits, preferential tax reductions and restrictive monetary policies. The housing industry in the United States has been decimated by continued high interest rates, supported by the Administration in its attempt to reduce inflation. High interest has meant little or no housing production for any but the most wealthy; it is producing conditions of the economic polarization similar to those of the 1920's.

In place of policies that have allowed over 65 percent of Americans to enjoy home-ownership and which have provided over 5,3 million government assisted housing units, Reagan's policies will make it almost impossible, except at prohibitive costs, for most to move from new work opportunities or better suited retirement units, or for their children to purchase housing in the future. His policies will mean most Americans will be unable to buy, move, rent or sell housing, without incurring prohibitive costs. These effects will be increasingly apparent as present home-owners find it necessary to move—a right almost half the population exercised during the last half-decade. For potential first-time home buyers, the impact of the President's policies on affordability of housing is most obvious. Over 80% of those who desire to purchase average-priced housing do not have the \$60,000 income to qualify for credit at current levels of interest. Yet, this Administration has continued to back resolutely the restrictive monetary policies of the Federal Reserve System which have helped hold interest levels at all-time highs. Only as the November 1982 Congressional elections approach does one see signs of wavering in the Administration's economic policies of support for high interest rates. Its fiscal policies are destined,

by its own admission, to bring on a series of budget deficits, the highest yet experienced in America's history. The government's borrowing to meet these deficits will itself constitute additional pressures for higher interest rates.

The Administration's preferential tax policies have largely benefitted both the wealthiest 10 percent and corporate America. Cuts in income tax rates were much more meaningful for the wealthy. Overly generous accelerated deductions have been given for corporate expenditures on plant and equipment, and borrowing for these purposes will also contribute to maintaining high interest levels. Leasing gimmicks have also been provided to allow successful corporations to deduct from taxes otherwise owed the government, losses transferred from less profitable corporations.

At the same time, the President's budget cuts, will mean more than half of the 16 million families who live at or below the poverty line will lose income. In contrast, Reagan has reduced tax rates by almost 30 percent on the wealthiest while also allowing the rich to pass on \$600,000 to their successors, free of estate tax, raising the prior exemption by 400 percent.

In the name of Reaganomics, whole industries and small businesses are being destroyed as are the jobs that would otherwise be available, while the unemployed burden the government rather than contribute to its support.

The effects of the Administration's continued support for the restrictive monetary policies have been especially disastrous for the construction industry. It has suffered unemployment levels almost twice national average (which exceeded 10 percent in September 1982) with 800,000 unemployed at the end of 1981, some 18.8% of that industry's work force. Homebuilder and contractor bankruptcies and failures are in numbers that will cripple the industry for a long time to come. These credit policies have contributed to the lowest levels of housing production in this country in over 30 years, at a time when we can anticipate adding about 1.8 million households to the housing market each year during this current decade.

The effects of high interest rates have also been reflected in the escalating numbers of mortgage foreclosures. California has reported foreclosure levels of 1,000 to 1,200 percent over rates of foreclosure experienced four years ago. Facing the need to refinance portions of their housing debt as balloon payments became due, many homeowners have to default, unable to afford the payments at higher interest rates for their houses. In the face of this human tragedy, the Administration has seemed more concerned with expediting foreclosure proceedings so government may recover units more quickly on which it has lent money, cutting off borrowers' historic rights to have time to redeem their homes.

The Administration has not only failed to stem the erosion of sources of reasonable priced housing finance, it has a substantial 1.5 billion problem facing it in the default posture of the savings and loan (S & L) industry. The S & Ls have been caught between the need to pay high interest to obtain new funds to loan and the low interest they receive on their outstanding fixed-interest long term loans. In an effort to obtain greater interest on their investments, S & Ls would abandon their historical housing finance role and go

instead to more lucrative consumer and commercial loans. The Administration has not acted to find an alternative source of financing. Despite the urgings of Democrats, the Administration has been slow to facilitate the use of pension funds as an urgently needed source of housing credit.

In addition to supporting policies leading to high levels of interest which will limit homeownership possibilities for most Americans, the Administration also plans to phase out all federal support for development of new private or public rental housing, housing that would not occur without government assistance. Housing, available for rental, has been shrinking given the diminution caused by condominium conversions and loss of deteriorated units.

The Reagan fiscal cutbacks in social programs have been decried by critics as attempts by the President to reduce his budget deficits by imposing disproportionate cuts and the greatest suffering on the poor. In conjunction with ill-considered tax cuts and increases in defense expenditures, the brunt of its fiscal policies has fallen on the housing programs despite the need by many Americans for assistance to afford the high costs of housing, and where the effects of the cuts especially impact the poor. The increasing number of the homeless in urban areas have now been focused upon as a testimonial to the effects of the Administration's policies.

The Administration has been thwarted by Congress in attempts to immediately kill off the federally assisted and public housing production programs. Instead, it has embarked on a phased strategy by imposing "the death of a thousand cuts". For instance, the whole range of Federal Housing Administration (FHA) programs are being substantially cut back and a concerted effort is being made to eliminate a historic source for financing homeownership for those with moderate incomes. Unsuccessful in attempts to eliminate the FHA completely in the first Reagan budget, strategies have been concocted to achieve the same ends by making the FHA ineffective. As the Department of Housing and Urban Development (HUD), itself started in 1981: 'Last year the OMB (the President's Office of Management and Budget) failed in its attempt to eliminate the FHA directly, so this year it has altered its approach slightly. Instead of taking the issue on directly, it has chosen to propose changes to the fee structure, the mortgage limits, the mutuality provisions, and the provisions which protect home buyers. The net effect of all these changes would be to make FHA insurance no longer attractive to those who traditionally rely on our programs'.

FHA interest ceilings that moderated market forces would be eliminated and the effectiveness of FHA would be restricted by limiting those persons who can qualify for FHA insurance, by increasing insurance fees, and by eliminating protections for home buyers. The Administration also plans to eliminate future FHA funding to assist private developers in producing housing even in areas where it is in short supply. Provision of housing in these areas is often critical for groups with special needs such as the elderly and the handicapped. At the same time, rentals in existing assisted housing units will be raised by substituting "comparative rents" on lower quality units when computing the level of federal assistance payments.

The treatment of the "truly needy" minorities who largely are the occupants of public housing in the United States has been at odds with the Administration's professed desire to assure safety nets for their support. Not only is any future public housing construction to be eliminated, the Administration has also proposed to substantially increase the rents for tenants, many of whom have already suffered severe cuts in income because of the 1981 reductions in their government welfare benefits.

The Administration has imposed immediate rent increases of 20% on low income tenants by increasing from 25% to 30% the proportion of their income that is to go to rent, contrary the promises the Administration made to Congress that such increases would be phased in over five years. Other Administration proposals were to charge for utility expenses separately from rents in order to extract higher tenant contributions than the increased limits on rent would permit.

Additional rent increases were to be imposed by ignoring deductions for dependents previously used in computing tenants' income, requiring the largest, poorest family to devote significantly higher the proportions of their income to rents. Finally, a further escalation of public housing rents would occur if Administration proposals are implemented to count food stamps as income for the first time. Resulting rent increases could be as much as 31% within two years, again having the greatest impact on the poorest families who most need food stamps to survive.

As part of its coordinated scheme to increase public housing rents, the Administration has tried to drastically cut the funds it now provides to operate, maintain and repair existing public housing units. If rents have to be increased to offset these cuts, according to HUD's preliminary calculations, starting October 1982, 'tenants would be faced with rent increases of over 60% in order to meet the shortfall in Operating Subsidies'. Thus far Congress has refused to allow the Administration to abandon these commitments to local housing authorities.

These cash flow problems for public housing, according to HUD, would mean 'a cut-off of utilities and other essential services for these tenants, massive layoffs of staff, rent strikes, the inability to maintain units in a livable condition, reduced rent rolls because units cannot be maintained and are boarded up for lack of funds, riots, vandalism and irreparable damage to projects.... bankruptcy and receivership of several major Public Housing Authorities'. The Administration has also proposed that remaining modernization funds be utilized to demolish rather than repair units. Where units are thus eliminated, future federal responsibility for financially assisting tenants in the units destroyed could be avoided once they are relocated.

In its essentially complete cutback of production programs, the Administration proposes to fund only 10,000 units of housing construction for the elderly. But, this is a group that grows larger yearly, whose income is treated by cuts in social security, and who clearly deserve government help to afford housing. Despite the deteriorating condition of much of the housing in older urban areas, the Administration would cut off funding of low interest loans that

provided homeowners with an affordable source of finance for necessary repairs and improvements. This policy will accelerate deterioration of existing stock, will lead to abandonment of housing, and will increase the potential for extensive overcrowding in the remaining units.

Withdrawal of support for financing of rehabilitation along with continued pressure to maintain high interest levels has also meant that landlords who provide rental housing have not been able to maintain their units, resulting in loss of rental housing either from abandonment or conversion to other forms of ownership. The limited assistance of 30,000 rehabilitation grants of \$ 5,000 each the Administration proposes for coupled rehabilitation and housing vouchers will have little effect on the deterioration of whole neighbourhoods.

In place of bi-partisan policies that provided a balance of reproduction and income support programs, this Administration's federal housing policy centerpiece is a consumer housing certificate program that will provide funds to assist renters to afford housing. Such a program has been an element of this country's housing policy, in various forms, for over 15 years. As designed by the Reagan Administration, however, vouchers constitute a retreat from support levels required by many Americans who need help to afford their housing costs.

While professing to favor this form of housing related income support, the President's program is deliberately underfunded. Benefit levels would be reduced to below those currently available in essentially equivalent programs.

Although introduced with great fanfare, only a small number of those with the lowest incomes will have access to such vouchers. By refusing to make this an "entitlement" program available to all who qualify, few of the millions who deserve such assistance will receive support. Over 73% of the poorest households are among the 5 million renters who pay *more than 30%* of their income for rent. The proposed funding levels for vouchers indicate that only 30,000 additional families would benefit in this program's first year. In its subsequent years, moreover, persons slated to receive vouchers would be predominately persons who at present receive support under other more generous benefit programs. These persons will be relegated to the less generous vouchers as conversion takes place. Furthermore, the additional 30,000 new vouchers would be tied to specific rehabilitation projects, basically inconsistent with the concept of permitting consumer choice.

A further indication of this Administration's miserly approach to this program is its plan to fund vouchers at a constant level for a five year term without adequate supplements for foreseeable inflationary rent increases. Thus, each year, participants will have to devote increasing portions of their own restricted incomes for rent, further eroding the limited funds available for other necessities.

Even if this Administration's voucher program were properly funded, as essentially the only element to its housing program, vouchers constitute only half a housing policy. It is remarkable that an Administration that advocates supply side economics seems to have failed to recognize the need to stimulate the supply of housing through production subsidies. Its determination, in essence, to eliminate all federal support for housing production will substantially

undercut its efforts to support the poor through housing related income payments.

Failure to augment the supply of housing and the Administration's resistance to supporting rehabilitation of the existing stock will in all likelihood contribute to higher rental costs, making vouchers increasingly expensive. The failure to assist housing production reflects the Administration's placing of higher priority on the cutting of inflation but ignores the plight of many Americans especially those who live in rural areas, within the inner cities and on Indian reservations, where the private sector will not construct housing. In addition, the abandonment of production programs exacerbates the effects in the construction industry of the current recession; assisted housing production has helped in the past to provide some stability to the work force in periods of severe economic downturn.

The Administration would try to supplement the meager voucher program by what is almost literally a "shell game" by permitting Community Development Block Grants funds to be used for housing construction as well as repairs. This simply allows more claimants to compete for funds that have already been reduced. The Administration had adroitly required the cities and other local units of government, rather than itself, to allocate these limited funds to an increased number of competing applicants.

In all, the abandonment of federal housing support would be almost complete if the Reagan programs are adapted by Congress. Political realities, however, may intervene. Although President Reagan ultimately vetoed the bill, Congress in 1982 passed a production subsidy of one billion dollars to be used to reduce interest costs for first-time purchasers of housing. While Congress was unstable to over-ride Reagan's veto in that instance, his attempted cutbacks in existing funds for production were effectively resisted by Congress. But, the Administration has been successful in preventing new funding for housing production programs. Therefore, except for funds as yet unspent, unless the Reagan Administration is reserved, the federal government's historic commitment to support for housing will be eliminated.

INCOME TAX POLICY AND HOUSING, THE UNITED STATES' EXPERIENCE

A summary and outline

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Policy statements come in two forms, explicit and implicit. Explicit statements are generally declarations of intention and the actions which follow them may or may not bear upon the perceived problem. Implicit statements are really secondary or even tertiary in nature. Since the statement is hidden behind some other explicit formulation, it is necessary to measure its effectiveness in terms of observed results. In the United States, housing policy is governed more by the implicit statements within the income tax code than the explicit statements emanating from the Department of Housing and Urban Development.

Since federal income tax policies and their effect on housing availability are poorly understood, they receive only a fraction of the attention accorded to direct housing outlays. The sheer magnitude of tax expenditures for favorable treatment of the housing sector makes it imperative that the subject be studied and understood. We need to know the effects of Federal income tax policies on rental housing and on ownership. Rental housing and owner-occupied housing are two sides of the same coin, and the mix of housing constructed and housing stock maintained depends upon their relative attractiveness as investment to owners and occupants.

In the United States, direct federal expenditures for housing assistance programs represent less than 20% of the indirect tax expenditures brought about by the favoured position of housing investment within the federal income tax code. The United States Congressional Budget Office estimates in the fiscal year 1982 deductibility of mortgage interest and property tax of owner-occupied homes will generate tax savings of approximately \$36 billion. If this \$36 billion tax saving were capitalized at something near the current mortgage interest rate, say 18%, the indicated value of the tax saving would be approximately \$200 billion. If the income tax deduction for mortgage interest and

property taxes were removed, the market value of the existing housing stock should fall by about 10% or \$200 billion. This does not mean that removing the deduction for mortgage interest and property tax paid from the income tax code would make it easier for people to buy houses since buyers would also be foregoing the benefit of the tax preference for housing investment. However, it would give us a look at the real costs of homeownership absent some of the distortions introduced by tax laws.

During the 1960s it was generally more advantageous for households with moderate incomes to be renters rather than homeowners. As inflation began to gather momentum in the early 1970s, the situation changed dramatically to a point where 'no one could afford not to own housing'. As the inflation rate declines, the attractiveness of owning housing diminishes. With economists forecasting declining inflation rates during the 1980s, there is the prospect that homeowners and renters will be on a more equal footing.

In the United States, there is already a movement toward smaller housing units. Some economists attribute the perception of a housing shortage in the United States to the fact that people are occupying substantially more space per capita but still wish to pay historic rents rather than current rents. This mismatch of desires and ability to pay contributes to our perceived housing shortage.

We have barely scratched the surface of knowledge and the behaviour of housing producers and housing consumers. Here, many of our predictions are largely guesswork. We must examine how tax policies modify investor behaviour. This may be the first step in learning more about 'who will pay the housing bill in the 80s'.

8.

PRESENT DAY PROBLEMS WITH THE FINANCING OF SUBSIDIZED HOUSING IN GENEVA

by Pierre M. Ischi
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I do not intend to develop a theoretical view of the problem but simply to summarise the present situation in Geneva. To begin with, let me give you some basic facts:

1. "Geneva" implies two things
 - a) Firstly, the *city* of Geneva which is certainly known to all of you;
 - b) Secondly, the state or "canton" of Geneva ("République et canton de Genève"), one of the smallest cantons of Switzerland.
2. The canton of Geneva is almost entirely surrounded by France. Its territorial boundary with the remainder of Switzerland is only five km. long.
3. Historically, the people of Geneva have always been tenants. In 1982, only 9 percent of the population own the houses in which they live.
4. Geneva (the canton) has 350.000 inhabitants; of these, about 150.000 live in the city of Geneva itself.
5. There are two systems of subsidized housing, for the city and the canton respectively.
6. *Subsidized housing in the city of Geneva.* Mr. Claude KETTERER, lord mayor of the city of Geneva and member of the IFHP Committee would be able to give you a better explanation of this system than me.
In brief, however, the city is owner of a considerable number of rented apartment blocks at an amount equivalent to 15 percent of the family income.
What this system costs the community is not published but it is said to be a very large sum of money.
There is no sign of a change in this policy and you may answer the question of 'Who will pay the housing bill...?' by the reply: 'Mainly the city, i.e. the tax payers'.
7. *Subsidized housing in the canton of Geneva.* I direct the Office financier

du logement of the canton of Geneva ("Housing Finance Office).

The canton does not own accommodation for rent but exists to exercise a strict control over rents and help private or institutional owners to reduce their rents by subsidizing them in various ways, as for example:

- Guarantees to banks on long term loans granted to home builders;
- Loans granted by the canton without interest;
- Tax exemptions and reductions;
- Annual distribution of subsidies to the owners of housing for rent.

These cantonal concessions are granted for periods of 10, 20 or 25 years, depending on certain circumstances and on options agreed upon at the beginning by the canton and home builders. The legal system obliges the canton to diminish its subsidies every two years with as a direct consequence an equivalent increase in the rent to be paid by the tenant. The same course is followed with tax exemptions at five yearly intervals. In other words, after 10, 20 or 25 years the tenants pay the entire rent for their lodging. Recently we have introduced housing allowances for tenants in addition to other subsidies, so we have individual aid as well as general housing subsidies for owners.

It should be noted that when the income of tenants exceeds a certain figure, they may be required to reimburse the canton by means of a so-called "housing surtax". This might be regarded as another type of individual assistance. The annual cost of the housing system of the canton of Geneva is shown in the documentation distributed to the participants in this workshop: about 60 million swiss francs for 1982, plus the value of the tax exemptions, i.e. a total of about 100 million swiss francs a year for some 30.000 apartments. This enormous effort on the part of the canton of Geneva has no equivalent elsewhere in Switzerland. The subsidies are financed by a special tax called "the additional housing tax" which represents between 4 and 5 percent of the basic tax of the canton of Geneva.

What are the present day problems in the building of new subsidized housing in Geneva? Fortunately, the economic situation of Geneva is good and the public finances are healthy. Yet there is a major problem. Up to now it has been possible to reduce the rent for middle class tenants to a maximum of 60 percent of the normal figure, the other 40 percent consisting of subsidies. At present, the costs of construction and financing (interest rates on mortgage loans rising to 6 percent per annum) have mounted so quickly and at a much higher rate than the general cost of living so that it is no longer possible to keep to the rule of 60 percent rent and 40 percent subsidies. If we did so there would be the following consequences:

- a) the cost to the canton would be too high;
- b) the reduction of subsidies every two years would lead to an increase in rents which was too steep.

What are the solutions to these problems?

1. My personal solution was to attend the IFHP Congress in Oslo to try to

find some good ideas.

2. In the meantime we are trying to accustom our people to pay higher rents, i.e. up to 20 percent of their income.
3. We shall encourage the financing of social housing by pension funds, which is less expensive than bank loans.

Our real problem however is to build new housing, not how to go on paying subsidies. It is becoming really difficult to build new housing for rent because of the lack of land for construction.

Geneva is a small canton. Our people are in a logical dilemma: they want more flats but they are against new building. They want to live in town, but they do not want old buildings to be demolished. Wherever it is possible to build, they want lower and smaller apartment blocks.

My conclusion is on the optimistic side: Geneva is a fortunate place where you can afford to have a great shortage of flats and at the same time to prevent by means of legal oppositions the construction of more than 1000 social housing units!

9.

HOUSING COSTS AND THE ROLE OF THE TENANTS

Theses by Sjors de Kam
The Netherlands

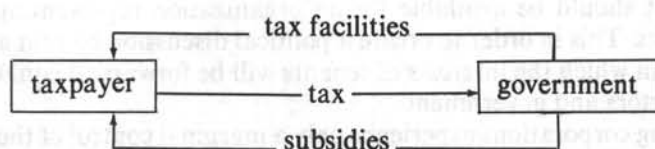
1. The post-war policy of the Dutch government concerning rents and housing subsidies has created parallel interests between government and housing associations, pushing the tenants' interest into the background.
2. In the mid-seventies politics declared housing to be a "merit good". Nowadays under the pressure of the financial problems of the government rents are being raised at a higher rate than building costs, costs of living or average wages. Therefore the promotion of the interests of tenants can no longer be created. Although housing and energy costs amount to 25-30 percent of the available budget of households, there is no organization comparable to - for example - trade unions to control housing costs.
3. Dutch tenants pay for the "union" of housing corporations; an equal amount should be available for an organization representing their own interests. This in order to create a political discussion on rent and housing policy in which the interests of tenants will be forwarded equal to those of proprietors and government.
4. Housing corporations experience only a marginal control of their exploitation, effected by government agencies. For instance the international organization and management of maintenance services, the calculations used to cover investments, quality control in building and renewal activities, and general investments are suitable for control by the above-mentioned organization of tenants.
5. Apart from the question to what amount a higher contribution of tenants in real housing costs would be reasonable, in my opinion a substantially increased influence and control of tenants on national and local level is a necessary condition to make such a policy acceptable.

DISCUSSION AND FINAL CONCLUSION

Priemus started the discussion by recalling the workshop's theme: who is going to pay for housing in the Eighties and what possibilities are there of applying the ability-to-pay principle?

A speaker from Stockholm (Sweden) pointed out that in his country many subsidies are given for building and housing by the government and also by savers. However the possibilities of this are on the decline. In the years to come a greater proportion of the housing costs must therefore be borne by the private sector. The distribution of housing costs becomes an urgent problem indeed as well as the question to which extent investments in dwellings are desirable. Speaker expected a fall in those investments. To safeguard the financing of housebuilding as much as possible, it is desirable to create a separate financing circuit for housing, for instance within a period of 8 years.

Woolery (USA) next presented a diagram in which the financial flows between government and citizens are outlined:



There are in fact two systems for distributing tax receipts: firstly via the tax system itself by tax facilities, in which usually the higher-income brackets, who also pay a relatively large amount of tax, derive considerable benefit, and secondly via subsidies. Subsidies are often aimed more at lower-income categories. A greater emphasis on taxes means less stress on redistribution and a greater trend towards privatization. However, the problem with subsidies is that through friction in the machinery of government the measures may be less efficient. If a greater emphasis on redistribution is desired, an important task is to increase the efficiency of government action. A subject for study could be what the relation is between the two distribution systems.

Woolery then noted that in the USA the stress is increasingly coming to fall on tax facilities, with the major disadvantage that the benefits are increa-

singly accruing to the higher- income brackets.

Woolery answered the question by Kwak (Netherlands) as to whether there is still a need for a housing policy in the USA on the affirmative. He pointed out that the consumption of housing services in on the increase, for instance through divorce, in addition to an increase in energy consumption. It is then in particular the lower-income categories that have difficulty in finding a home; for these groups housing policy is most certainly desirable.

Seyp (Norway) pointed out that savers did not appear in Woolery's diagram. In times of inflation, with a low real interest rate, it is the savers who bear part of the housing costs in the form of erosion of their capital.

Malcolm Levy (UK) also signalled the privatization trend as regards the United Kingdom. The present government is obviously trying to reduce of council houses is an illustration of this. One of the consequences of this selling-off is that the importance of the subsidy system in respect of tax relief is declining. The possibilities of a purposive government policy are then moreover lessening. This is all the more regrettable because the demand for housing is still very great and there are considerable shortages, while there is widespread unemployment in building.

The discussion was directed above all to a comparison of tendencies in housing costs policy in the various countries. Few solutions were brought forward. Attention was drawn, notably by Woolery and Seyp, to the desirability of limiting tax relief on mortgage interest: this forces down the selling prices of dwellings for sale and combats inflation. At the same time it brings relief to the capital market with as a possible consequence a fall in the interest rate.

Mention was also made of the desirability of a separate financing circuit for housing.

Whether the ability-to-pay principle ought to play a more important part in housing was still a matter of opinion for the participants in the discussion. The future remained veiled in mist. The government is inclined to pass on the higher housing costs to occupants, but these may decide to consume less in the way of housing services.

In the various contributions from the USA, Switzerland and the Netherlands the great effect of - large - differences in interest rate is immediately apparent. The interest rate prevalent at the point in time when a mortgage is concluded or changed, or when the financing of a dwelling for rent is arranged, proves to determine the size of the "cost-price housing costs" to a very considerable extent. Anyone who might think that on a free market a consistent relation comes into being "automatically" between dwelling quality and housing costs will be disappointed. On this point too the housing market proves to function most imperfectly. The high interest rate confronts the occupants and/or the government severe problems of payability. Changes in interest rate bring about an erratic pattern of housing costs that is difficult to accept.

In the USA home ownership prevails. The lowest-income categories have to fall back on a subsidized rent sector of very limited size. The American reaction to the high interest rates and the economic depression is drastic cuts in public

expenditure on housing. According to some, housing policy is being almost completely done away with here. The bill is being presented in full to the occupant, with the facilities for tax relief on mortgage interest bringing about a strange relation to income. Housing costs in the USA are primarily dependent on the high interest rates and the fiscal regime. On balance the system has a depressive effect. Only for a small number of recipients of housing allowances is there any question of a progressive relation between income and housing costs.

The canton of Geneva in Switzerland is characterized by a very high proportion of rented dwellings: some 90%. Until recently the interest rate there was low. In such a situation affordable newly built dwellings were possible without a large burden on the national budget. Now that interest rates are rising, the government is having its problems. The economy in Switzerland is favourable, as a result of which the difficulties do not seem fatal. But what does the future look like? For the time being the bill is going both to the occupants and to the government.

The Netherlands is in a sense in an intermediate position. On the owner-occupied market, despite considerable subsidies related to income, the American model applies. The high interest rates have an all-prevailing effect. The result: the construction of new dwellings for owner-occupancy has dropped sharply. Only the most heavily subsidized part of the owner-occupied sector is holding its ground to some extent. In the rent sector the government here (i.e. the taxpayer) foots the bill for the high interest. Tenants are protected against the problems on the capital market. The financial consequences of this policy weigh very heavily on the authorities. The government's financing deficit is increasing, inter alia through the call made by housing subsidies and the loans that have to be attracted for the construction of new dwellings. Not only are the initial rents being subsidized to a considerable extent, but the subsidies during operation of the dwelling are also very high. Annually the latter subsidies even increase. Each new annual contingent of dwellings increases the burden of building subsidies without there being any prospect of reduction. Half of the newly built dwellings for rent are moreover individually subsidized. For this category there is a fairly clear relation between (net) housing costs and income. Through the falling purchasing power the number of recipients of individual rent subsidy (now over 500.000) is steadily growing. The pressure on the national budget is reflected in a tendency to restrict the quality of new construction and further gradually to reduce the volume of new construction to some extent. The need to strengthen the relation between income and housing costs - as a result of which the funds available are better utilized - is growing, above all in the rent sector, but there is no clear picture of the instrumentation of such a policy. Ideas for a kind of rent tax are occasionally put forward, but those presenting the ideas have no reply to the many practical objections. As a result of the high costs the norm for the housing assistance are being adjusted, which somewhat inhibits the growth of the subsidy amount. However, in the stock of rented dwellings intensive efforts are being devoted to increase rent (rent harmonization). This may lead to a growth of the housing assistance burden.

The introductions in this collection provide a snapshot of the housing costs problems in a number of countries differing strongly from each other. Indications are given of the direction that could be taken when seeking solutions. The strengthening of the ability-to-pay principle in housing presents problems, but also prospects. Housing in accordance with ability to pay will not come about by itself. De Kam points to the possible role that tenants' organizations can play. Organizations of owner-occupiers and the unions may also be envisaged in this respect. We hope that the workshop and this collection will contribute to discussion on the housing costs policy to be developed on the Eighties.

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Appendix 1

SOME PRELIMINARY REMARKS

by dr. Heinz Umrath
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I. Background of Housing (and rent) Policies after the Second Worldwar.

- a. Expectation 1945 - ± 1950/52: repetition of post worldwar I experience, i.a. Housing Boom with steeply rising costs followed by sharp recession, decreasing prices and unemployment after 1921. Conclusion: Housing costs will become "normal" after a relatively short period. In the meantime, higher housing costs do not need to be followed by wage increases if the share of housing costs in household budgets is kept on the same level for the same quality by subsidies.
- b. Real development was different: Construction costs increased steadily and (up till very recently) permanently, later joined by costs of financing. Housing costs were not adapted for various socio-economic and administrative reasons and because high housing costs would be followed by higher wages, while governments tried in one way or another to keep labour costs low in view of international competition. Therefore, in addition to open subsidies, we subsidized (private and public, profit and non-profit) enterprises and administrations by eating up our residential capital. (low rent = low wages = low maintenance = deterioration of housing stock).

II Points for discussion.

- a. By a coordinated increase of housing costs *and* wages, for instance in the frame work of OECD, we might have avoided a deterioration of the mutual terms of trade and - at least - mitigated (part of) our present problems of housing finance (more payment by occupiers - less subsidies). This would even have been more the case, if the various governments had balanced the national housing exploitation budget by equalization of housing costs (H.Umrath, *Waarom huuregalisatie?*, *BOUW*, 1952, no.45.).
- b. Paying the Housing Bill in the 80s necessitates some coordinated adaption of housing costs and wages though results will be less consequential than 20

years ago, if not combined with similar action in socio-economics, especially monetary policy in general (see recent article by Tinbergen in ESB).

- c. The ability-to-pay principle must be applied to those groups who are able to spend (large) parts of income for nonsense-products thereby stimulating investment of scarce capital in the production of non-essentials (see W.A.A.M. de Roos, De "nonsenseprodukten" - Waar het om gaat, ESB, 1973, p.891).

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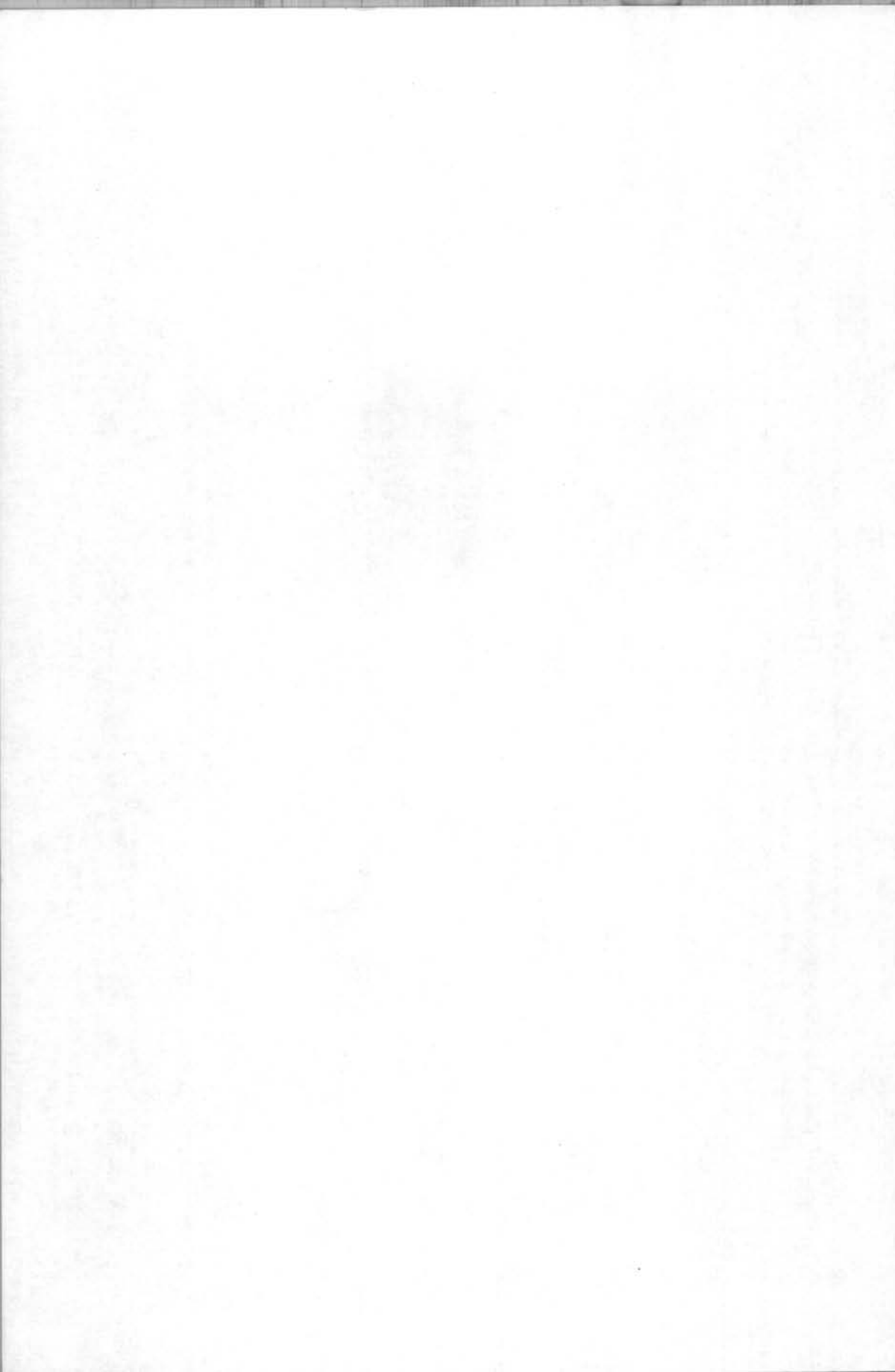
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In large parts of the world economic stagnation persists. As a result of high interest rates, declining purchasing power and high energy costs it is becoming increasingly difficult for tenants and owner-occupiers to find the money to pay for their housing. Governments are getting into financial difficulties and feel obliged to economize on subsidies and sometimes to sell subsidized dwellings. Housebuilding is being cut back strongly, despite the many unfulfilled housing wants.

What policy is being followed by the authorities with respect to housing costs and subsidies so as to face these problems? What are the determinants of this policy, and what are the consequences? These were the leading questions at the workshop "Who will pay the housing bill in the eighties? Housing and ability-to-pay in a period of economic stagnation and political hesitation", held during the 36th World Congress of the *International Federation for Housing and Planning* (IFHP), Oslo 9 June 1982. This book publishes the papers which were presented at the workshop and gives a summary of the discussions between the participants. The workshop not only shows the heavy housing problems in the beginning of the eighties but also indicate some inspiring directions and perspectives for solving these problems.

Hans van Fulpen, Hugo Priemus and Jan van der Schaar are members of the housing research group of the Delft University of Technology. Hans van Fulpen is also employed by the Social and Cultural Planning Office in the Netherlands. Hugo Priemus is professor of housing at the Delft University and Jan van der Schaar is a member of the board that is responsible for the unique education of housing at the same university.