EUROPEAN MONETARY, ECONOMIC AND POLITICAL UNION: CONSEQUENCES FOR NATIONAL HOUSING POLICIES
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EUROPEAN MONETARY, ECONOMIC AND POLITICAL UNION: CONSEQUENCES FOR NATIONAL HOUSING POLICIES

Feasibility study for the Commission of the European Communities, Directorate-General for Employment, Industrial Relations and Social Affairs

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1. The Impact on the European Housing Market
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THE MAASTRICHT TREATY

1.1 Introduction

In December 1991 the Maastricht Treaty was concluded. An important step had thus been taken in the direction of a European monetary and political union. After Maastricht too housing policy remains the responsibility of the individual Member States. And yet the expectation is justified that implementation of the Maastricht Treaty will have important consequences for national housing policies in the European Community. At the request of the Directorate General for Employment, Industrial Relations and Social Affairs of the Commission of the European Communities, four researchers collaborating within the framework of the European Network for Housing Research (ENHR) have examined this question.

In this concise report the problems are explored. A short analysis of the contents of the Maastricht Treaty is presented in this section. The staging and convergence criteria of the Maastricht Treaty are dealt with in the same section. Section 2 gives an overview of the evolution of European housing policies. This overview is illustrated with a number of comparative housing statistics. Possible implications of the European monetary, economic and political union are sketched in Section 3.

In Appendix I a proposal is formulated for an in-depth research project into the impact of the European Monetary, Economic and Political Union. In this research project the consequences of the European integration could be elaborated and quantified per EC Member State.

1.2 The Maastricht Treaty: General

The five objectives of the European Community are as follows:

- to promote economic and social progress which is balanced and sustainable, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and
through the establishment of economic and monetary union, ultimately
including a single currency in accordance with the provisions of this Treaty;
- to assert its identity on the international scene, in particular through the
implementation of a common foreign and security policy including the
eventual framing of a common defence policy, which might in time lead to
a common defence;
- to strengthen the protection of the rights and interests of the nationals of
its Member States through the introduction of a citizenship of the Union;
- to develop close cooperation on justice and home affairs;
- to maintain in full the *acquis communautaire* and build on it with a view to
considering (...) to what extent the policies and forms of cooperation
introduced by this Treaty may need to be revised with the aim of ensuring
the effectiveness of the mechanisms and the institutions of the Community*.

Above all the first of the above objectives may have major consequences for the
national housing policy in the various Member States.

Article 2 of the Treaty reads as follows since Maastricht:
"The Community shall have as its task, by establishing a common market and an
economic and monetary union and by implementing the common policies or
activities referred to in Articles 3 and 3a, to promote throughout the Community
a harmonious and balanced development of economic activities, sustainable and
non-inflationary growth respecting the environment, a high degree of conver­
gence of economic performance, a high level of employment and of social
protection, the raising of the standard of living and quality of life, and economic
and social cohesion and solidarity among Member States".

In order to attain the objectives stated in Article 2, the activities of the
Community include, as provided in the Treaty and in accordance with the
timetable set out in the Treaty, the following in accordance with Article 3:
"(a) the elimination, as between Member States, of customs duties and quant­
itative restrictions on the import and export of goods, and of all other
measures having equivalent effect;
(b) a common commercial policy;
(c) an internal market characterized by the abolition, as between Member
States, of obstacles to the free movement of goods, persons, services and
capital;
(d) measures concerning the entry and movement of persons in the internal
market;
(e) a common policy in the sphere of agriculture and fisheries;
(f) a common policy in the sphere of transport;
(g) a system ensuring that competition in the internal market is not distorted;
(h) the approximation of the laws of Member States to the extent required for
the functioning of the common market;
(i) a policy in the social sphere comprising a European Social Fund;
goals of the economic and monetary union are: - establishing a stable monetary and financial-economic framework; - economic integration, liberalization and deregulation.

all this is directed towards bringing about a greater dynamics of economies, as also stronger economic growth.

the economic policy pursued is based on: - close coordination of the economic policies of the member states; - realization of the undivided internal market; - the definition of common objectives.
This policy is conducted in accordance with the principle of an open market economy with free competition.
In the longer term the treaty aims at the fixing of exchange rates leading to the introduction of a single currency, the European Currency Unit (ECU), and the definition and conduct of a single monetary policy and exchange-rate policy. The activities of the Member States and the Community imply compliance with the following guiding principles:
- stable prices;
- sound public finances and monetary conditions;
- a sustainable balance of payments.

In areas that do not fall within its exclusive competence - such as housing - the Community takes action, in accordance with the principle of subsidiarity, according to Article 3b, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

Article 73b prohibits all restrictions on the movement of capital between Member States and between Member States and third countries. The Member States which, on 31 December 1993, enjoy a derogation on the basis of existing Community law, are entitled by way of derogation from Article 73b to maintain, until 31 December 1995 at the latest, the relevant restrictions on movements of capital (Article 73e).

In Article 99 it is announced that the Council will adopt provisions for the harmonization of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonization is necessary to ensure the establishment and the functioning of the internal market within the time-limit laid down.

Title VI of the Treaty is concerned with economic and monetary policy. Article 102a implies that the Member States and the Community act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources.

Member States regard their economic policies as a matter of common concern and will coordinate these policies within the Council.

Broad guidelines for the economic policy of the Member States and the Community will be formulated and adopted (Article 103). Closer coordination of economic policies and sustained convergence of the economic performance of the Member States will be pursued.

Under Article 104c Member States are to avoid 'excessive government deficits'. The Commission will monitor the development of the budget situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it will examine compliance with budgetary discipline on the basis of the following two criteria:
whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless;
- either the ratio has declined substantially and continuously and reached a level that comes close to the reference value;
- or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value;
(b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

The reference values are specified in the Protocol on the excessive deficit procedure annexed to the Treaty.

1.4 European System of Central Banks, European Central Bank, and European Monetary Institute

As is known, in conformity with Article 4 of the Maastricht Treaty the Community has five institutions with their own powers (Laffan, 1992):
- Parliament;
- Council;
- Commission;
- Court of Justice;
- Court of Auditors.

The Council and the Commission are assisted by an Economic and Social Committee and a Committee of the Regions acting in an advisory capacity. A new aspect (Article 4a) is that a European System of Central Banks (ESCB) is to be established, as also a European Central Bank (ECB). Furthermore, a European Investment Bank (Article 4b) is to be founded.

The primary objective of the ESCB is to maintain price stability (Article 105). In addition the ESCB supports the general economic policies in the Community. The basic tasks to be carried out through the ESCB are (Article 105 paragraph 2):
- to define and implement the monetary policy of the Community;
- to conduct foreign-exchange operations consistent with the provisions of Article 109;
- to hold and manage the official foreign reserves of the Member States;
- to promote the smooth operation of payment systems.

The ESCB is to contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system. The ESCB is composed of the ECB and of the national central banks (Article 106).
The ECB has the exclusive right to authorize the issue of banknotes within the Community. The ECB and the national central banks may issue such notes, which are the only such notes to have the status of legal tender within the Community (Article 105a).

The ESB further has advisory tasks in the monetary field. Finally, the Council may decide to confer on the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions, with the exception of insurance undertakings (Article 105).

The ECB can make regulations that are binding in their entirety and directly applicable in all Member States. They can make (non-binding) recommendations and deliver opinions. The ECB can further make decisions that are binding in their entirety on those to whom they are addressed (Article 108a):

- the European Monetary Institute (EMI) has the task (Article 109f) of:
  - strengthening cooperation between the national central banks of the Member States;
  - strengthening the coordination of the monetary policies of the Member States, with the aim of ensuring price stability;
  - monitoring the functioning of the European Monetary System;
  - holding consultations concerning issues falling within the competence of the national central banks and affecting the stability of financial institutions and markets;
  - taking over the tasks of the European Monetary Cooperation Fund, which is to be dissolved; the modalities of dissolution are laid down in the Statute of the EMI;
  - facilitating the use of the ECU and overseeing its development, including the smooth functioning of the ECU clearing system.

1.5 Staging

The second stage of the realization of the Economic and Monetary Union begins on 1 January 1994. Before that date all restrictions on the movement of capital between Member States and between Member States and third countries (Article 73b) are to be removed. Before 1 January 1994 the Member States will adopt multiannual programmes intended to ensure the lasting convergence necessary for the achievement of economic and monetary union, in particular with regard to price stability and sound government finances. Finally, the Council will, before 1 January 1994, on the basis of a report from the Commission, assess the progress made with regard to price stability and sound public finances, and the progress made with the implementation of Community law concerning the internal market (Article 109e).

During the second stage Member States will endeavour to avoid excess government deficits and start the process leading to the independence of their central bank (Article 109e). At the start of the second stage a European Monetary Institute (EMI) will be established (Article 109f).
At the latest by 31 December 1996, the EMI will specify the regulatory, organizational and logistical framework necessary for the ESCB to perform its tasks in the third stage. The date for the beginning of the third stage will be set later. The third stage will begin not later than 1 January 1999. If a Member State does not meet the criteria of Article 109j paragraph 1, this country will acquire the status of "Member State with a derogation" (Article 109k).

1.6 Convergence Criteria

For the present study above all the convergence criteria are of great importance. These are as follows:

- the rate of inflation may not exceed by more than 1.5 percentage points the average of the three best performing Member States;
- the budget deficit must be less than 3% Gross Domestic Product at market prices or there must be a clear decrease in that direction;
- government debt must be less than 60% of annual Gross Domestic Product at market prices or there must be a sufficient decrease in that direction;
- the long-term interest rate on government bonds may not be more than two percentage points higher than the average of the three best performing Member States;
- exchange-rate stability: last two years no devaluation; the rate must fit into the fluctuation margin of the European Monetary System (EMS).

The protocol formulates the above convergence criteria as follows:

Article 1. The criterion on price stability means that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1.5 percentage points that of, at most, the three best performing Member States in terms of price stability. Inflation will be measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions.

Article 2. The criterion (Article 109j) on the government budgetary position of the examination means that at the time of the examination the Member State is not the subject of a Council decision under Article 104c paragraph of the Treaty that an excessive deficit exists.

Article 3. The criterion (Article 109j) on participation in the exchange-rate mechanism of the European Monetary System means that a Mem-
obar State has respected the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State must not have devalued its currency's bilateral central rate against any other Member State's currency on its own initiative for the same period.

Article 4. The criterion (Article 109j) on the convergence of interest rates means that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than two percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates will be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions.

De Kam, De Haan and Sterks (1992) charted the financial position of the public sector in all EC member states and the development in this over the period 1981-1990. They establish that not only do the member states display great differences, but also that in some cases the differences have even grown in the last ten years. A number of countries are lagging far behind the condition laid down; these countries will not escape measures of adjustment.

Table 1.1 Government budget deficit in EC member states, 1981-1990

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>-0.8</td>
<td>4.1</td>
<td>2.8</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-2.8</td>
<td>-3.1</td>
<td>0.3</td>
<td>4.6</td>
<td>-0.7</td>
</tr>
<tr>
<td>Denmark</td>
<td>-7.7</td>
<td>-0.9</td>
<td>0.8</td>
<td>2.8</td>
<td>-1.5</td>
</tr>
<tr>
<td>France</td>
<td>-2.6</td>
<td>-2.8</td>
<td>-1.6</td>
<td>-1.2</td>
<td>-1.7</td>
</tr>
<tr>
<td>Germany</td>
<td>-3.1</td>
<td>-1.4</td>
<td>-1.2</td>
<td>3.0</td>
<td>-1.9</td>
</tr>
<tr>
<td>Ireland</td>
<td>-13.0</td>
<td>-10.7</td>
<td>-5.9</td>
<td>9.2</td>
<td>-3.6</td>
</tr>
<tr>
<td>Spain</td>
<td>-4.7</td>
<td>-6.1</td>
<td>-3.1</td>
<td>0.1</td>
<td>-4.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-6.3</td>
<td>-5.7</td>
<td>-5.7</td>
<td>-1.2</td>
<td>-5.3</td>
</tr>
<tr>
<td>Belgium</td>
<td>-11.7</td>
<td>-8.9</td>
<td>-6.9</td>
<td>2.5</td>
<td>-5.7</td>
</tr>
<tr>
<td>Portugal</td>
<td>-9.6</td>
<td>-9.8</td>
<td>-5.2</td>
<td>5.9</td>
<td>-5.8</td>
</tr>
<tr>
<td>Italy</td>
<td>-11.1</td>
<td>-11.9</td>
<td>-10.7</td>
<td>-1.5</td>
<td>-10.7</td>
</tr>
<tr>
<td>Greece</td>
<td>-9.0</td>
<td>-12.1</td>
<td>-15.0</td>
<td>7.3</td>
<td>-20.4</td>
</tr>
</tbody>
</table>

EC total* | -5.2            | -4.9            | -3.3            | 1.2                                  | -4.1       |

*Unweighed average
Table 1.1 surveys the trend of the government budget deficit in the period 1981-1990.

In this table the countries are ranked by increasing deficit in 1990 (see last column). In that year Luxembourg was the only country to have a surplus (4.7% GDP). The severest budgetary problems may be seen in Italy (-10.7% GDP) and Greece (-20.4% GDP).

In the eighties Ireland above all achieved a great improvement (9.2 percentage points). Portugal (5.9 percentage points), Luxembourg (4.7%) and the United Kingdom (4.6%) also did well. In The Netherlands and France the deficit grew in the eighties by 1.2 percentage points, in Italy by 1.5 percentage points and in Greece by no less than 7.3 percentage points.

Fig. 1.1 gives a visual picture of the change in government expenditure and revenue in the period 1987-1989 (in % GDP). The ratio of the EC budget deficit improved to an average -3.3% GDP. In this period the policy was everywhere directed towards reducing the budgetary deficit, controlling the growth of debt and interest charges, lowering the public expenditure ratio and revising the composition of revenue and expenditure.

Greece and Denmark did badly in this period. Indeed, the budgetary position deteriorated nearly everywhere in 1990-1991, above all through the costs of German unification and - to a somewhat smaller extent - through the weakening economic growth. As a result, the budget deficit of the Community rose again from -2.9% GDP (1989) to -4.6% GDP (1991).

Figure 1.1 Change in government expenditure and revenue, 1987-1989 (in % GDP)

The debt ratio of the economically most important member states in 1990 is in general below the EC average of approx. 60%. Germany has a ratio of 43.6%, France 46.6% and the United Kingdom 42.8%. The debt ratio is problematic in Belgium (now stabilized, but very high), Italy and Greece (still rising), Ireland (declining ratio), Italy and also The Netherlands (stabilization of the ratio).

Table 1.2 shows the development of the debt ratio in the eighties.

Fig. 1.2 shows the trend of the public expenditure ratio in the period 1980-1990 (in % GDP). This figure makes it clear that a number of member states have been successful in reducing the expenditure ratio, notably in the second half of the eighties. However, expansion of expenditure is continuing in Greece, Spain and Italy.

Figure 1.3 and 1.4 compile the main indicators of nominal convergence problems in the Community in 1992. Only Luxembourg has no convergence problems. Only the following states meet the criterion of public finance: Denmark, Spain, France, and Luxembourg. In this respect there are severe problems in Belgium, Greece and Italy. Most countries will have to try with redoubled efforts to reduce the government debt to meet this convergence criterion. Inflation meets the convergence criteria in Belgium, Denmark, France, Luxembourg and The Netherlands. Inflation levels are especially high in Greece and Portugal.

Table 1.2 Debt ratio in EC member states, 1980-1990*

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1985</th>
<th>1990</th>
<th>increase 1980-90 (% point)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>77.3</td>
<td>119.8</td>
<td>127.3</td>
<td>50.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>73.9</td>
<td>108.5</td>
<td>103.0</td>
<td>29.9</td>
</tr>
<tr>
<td>Italy</td>
<td>57.8</td>
<td>82.0</td>
<td>98.6</td>
<td>40.8</td>
</tr>
<tr>
<td>Greece</td>
<td>28.8</td>
<td>62.6</td>
<td>93.7</td>
<td>64.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>45.9</td>
<td>69.7</td>
<td>78.3</td>
<td>32.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>37.1</td>
<td>70.9</td>
<td>68.2</td>
<td>31.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>39.9</td>
<td>76.8</td>
<td>66.4</td>
<td>26.5</td>
</tr>
<tr>
<td>France</td>
<td>37.3</td>
<td>45.5</td>
<td>46.6</td>
<td>9.3</td>
</tr>
<tr>
<td>Spain</td>
<td>17.6</td>
<td>45.2</td>
<td>44.5</td>
<td>26.9</td>
</tr>
<tr>
<td>Germany</td>
<td>32.7</td>
<td>42.3</td>
<td>43.6</td>
<td>10.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>54.1</td>
<td>58.9</td>
<td>42.8</td>
<td>-11.3</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>13.8</td>
<td>14.0</td>
<td>7.3</td>
<td>-6.5</td>
</tr>
</tbody>
</table>

* Countries are ranked by declining debt ratio in 1990.
Figure 1.2  Public expenditure ratio in EC member states (in % GDP), 1980-1990

Source: EC/De Kam et al., 1992
Table 1.3: Main indicators of nominal convergence problems in the community in 1992
(figures from the November 1991 forecasts of the Commission services)

<table>
<thead>
<tr>
<th></th>
<th>Inflation</th>
<th>Public finances</th>
<th>External accounts</th>
<th>Interest rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deflator</td>
<td>General go-</td>
<td>Public debt as a</td>
<td>Current account</td>
</tr>
<tr>
<td></td>
<td>of private</td>
<td>vernment net</td>
<td>a percentage of GDP</td>
<td>Balance</td>
</tr>
<tr>
<td></td>
<td>consumption</td>
<td>botr.</td>
<td>(GDP)</td>
<td>(GDP)</td>
</tr>
<tr>
<td></td>
<td>labour costs</td>
<td>requirement</td>
<td>1992</td>
<td>change from 1991</td>
</tr>
<tr>
<td>BEL</td>
<td>3.4</td>
<td>6.3</td>
<td>129.6</td>
<td>+ 0.2</td>
</tr>
<tr>
<td>DAN</td>
<td>2.2</td>
<td>1.5</td>
<td>65.8</td>
<td>- 0.9</td>
</tr>
<tr>
<td>DEU (W)</td>
<td>4.2</td>
<td>2.5</td>
<td>48.7</td>
<td>+ 2.5</td>
</tr>
<tr>
<td>ELL</td>
<td>14.3</td>
<td>14.4</td>
<td>90.0</td>
<td>+ 2.6</td>
</tr>
<tr>
<td>ESP</td>
<td>5.6</td>
<td>3.6</td>
<td>46.4</td>
<td>+ 0.8</td>
</tr>
<tr>
<td>FRA</td>
<td>2.9</td>
<td>1.7</td>
<td>47.5</td>
<td>+ 0.3</td>
</tr>
<tr>
<td>IRL</td>
<td>3.0</td>
<td>4.1</td>
<td>100.4</td>
<td>- 2.4</td>
</tr>
<tr>
<td>ITA</td>
<td>5.2</td>
<td>9.4</td>
<td>103.9</td>
<td>+ 2.7</td>
</tr>
<tr>
<td>LUX</td>
<td>3.7</td>
<td>-2.0</td>
<td>6.4</td>
<td>- 0.3</td>
</tr>
<tr>
<td>NED</td>
<td>3.5</td>
<td>4.1</td>
<td>79.5</td>
<td>+ 1.1</td>
</tr>
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<td>POR</td>
<td>9.5</td>
<td>4.6</td>
<td>62.7</td>
<td>- 2.0</td>
</tr>
<tr>
<td>UK</td>
<td>4.6</td>
<td>3.6</td>
<td>45.6</td>
<td>+ 1.8</td>
</tr>
<tr>
<td>EC</td>
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<td>4.5</td>
<td>69.3</td>
<td>+ 1.5</td>
</tr>
</tbody>
</table>

The shaded cells give an indication of convergence problems

Figure 1.4 Convergence criteria of Maastricht

The shaded block indicates the limits of the EMU convergence; above the criteria for inflation and interest are shown, and below those for the budget deficit. In both graphs it is indicated how countries have developed with respect to the EMU criteria between June 1988 and June 1992. If a country is to satisfy the EMU criteria, it must appear in the shaded blocks.

1988 – 1992

Inflation
Inflation may not be more than 1.5 percentage points higher than the average percentage of the three member states with the lowest inflation.

Interest
The long-term interest rate may not be more than 2 percentage points higher than the average percentage of the three member states with the lowest interest rate.

Budget deficit
The budget deficit may not be greater than 3% of the gross domestic product.

National debt
Volume of national debt may not be greater than 60% of the GDP. An exception is made for countries where there is a considerable and lasting decrease in the direction of this criterion.

Exchange rate
The currency must have participated in the exchange-rate mechanism of the European Monetary System for two years without severe tensions and may not have been devalued.

Source: Eurostat
THE EVOLUTION OF EUROPEAN HOUSING POLICIES: A BROAD OVERVIEW

2.1 Introduction

This section provides only a generalised overview of housing policies in Europe during the post-war period. The approach adopted is to examine the broad sweep of housing policy development in three major phases. There is then a summary statement of current concerns in European housing, with these issues forming the basis of an emergent new phase. It must be emphasised that the timing, duration and intensity of each policy phase has varied from country to country and that phases of change have been marked more in northern than southern Europe.

2.2 Phase 1 - Recovery, 1945-1960

After the outset of very rapid industrialisation in Northern Europe in the 1870's associated problems of homelessness, high rents in relation to incomes and problems of urban quality soon emerged. Measures to supplement markets, dominated by private rental provision, were widely advocated (if more rarely implemented). After some early city planning and rent control measures the first major action for housing was the development of non profit housing provision. By the turn of the century in Germany, Denmark, the UK, France and selected North Italian cities the notion that social housing could make an important contribution was well established and small scale non profit developments emerged prior to World War I. In Southern Europe later urbanisation and lower income levels largely precluded any state expenditures on housing until post-1950; indeed in Spain, Greece and Portugal subsidised home loans, strictly rationed by National Mortgage Banks, and rent controls (but not in Greece) formed the basis of housing policies even into the 1980's. The onset of phase I, post-1945, marked a strong increase in the active role of government in the housing sector in large parts of Europe. Policy development was concerned with remedying wartime damage and shortages, and social housing was widely chosen as the means to reconstruction.
Although there was growth in housing in the inter-war period and particularly in the UK it was not until after 1945 that the major expansion of European social housing took place. In 1946, the United Nations estimated that there were 20 million Europeans in acute housing need. The massive reconstruction task that confronted almost every country in Western Europe meant that governments reacted to a situation where housing conditions and housing shortages dominated policy rather than other economic considerations. It is important to bear this in mind. Europe now seems to be in a period when housing policy has come to be largely influenced by market-led economic circumstances, an approach often initially problematic for institutions and practices developed in earlier periods. Looking back to that period it is clear that most governments in Northern Europe chose social housing as the key route to meeting acute housing crises quickly. Only in a few, such as Germany, was much attention given to how the market rental and owned sectors could be used to meet social ends.

Social housing systems after 1945, developed some common features. The first of these was that social housing was seen primarily as a development activity, and little regard was paid to management issues. The people employed, the methods adopted, and the management of financing systems devised were all concerned primarily with putting houses on the ground and people into houses rather than the longer term implications of financing, allocation processes, maintenance and management. It is these inherited organisational systems, and not just the dwellings, which became so problematic in the 1980s, so much so that social housing is only rarely, Scandinavia and The Netherlands excepted, now regarded as constituting 'desirable' housing.

Housing development in the period 1945-1960 not only dominated management but also embodied a crude conception of what 'housing' achieved. Policy was concerned primarily with the numbers of units constructed; quality was not the issue; and the relationships between housing and the local community, economy, and amenity were given scant consideration in the development process. Thus, when there was a major commitment to invest in social housing, there was a failure to construct the linkages that needed to be made between one facet of policy and another.

The above picture fits British council housing but it is not inaccurate to note that there were similar emphases in other Western European countries. There were similar organisational features; rents were set below market rents thus generating queues requiring allocation rules; overall rents were pooled and with historic cost accounting and in consequence property rents were unrelated to either residents needs and incomes or the quality of units. Almost all European social housing systems adopted these broad principles simply because it was a way of keeping down rents for new entrants into the system. In consequence there was no 'single market' in low income rental housing within countries or even within particular cities and, indeed, pricing and subsidy diversity persist today. The adverse consequences of these pricing and accounting systems have become widely apparent in the last decade. The period from 1945 to 1960 saw the social housing sector beginning to grow in scale and significance. In Western Europe
the sector grew from two per cent of the housing stock in 1945 to about 10 per cent by around 1960, and in the Netherlands, and the UK to more than a quarter. In most countries the emphasis was on stimulating housing associations, co-operatives and municipal housing companies rather than the larger 'mono­poly' council landlords promoted in Britain. The HLM in France, housing associations in Denmark, The Netherlands and Germany, and municipal housing companies in Sweden all expanded markedly from 1950 to 1960. In Western Europe, Britain excepted, social housing was enabled rather than provided by local authorities. The notion of the enabling local authority, which has come to the fore in Britain in the last five years, has really been the tone of housing policy in most countries since the 1950s onwards.

2.3 Phase 2 - Growing Diversity, 1960-1975

The broad thrust of early post-war policy largely continued throughout a second phase, between about 1960 and about 1975. In that period issues about housing quality did begin to emerge as being important. New dwellings increased in size and amenity levels, and non-traditional construction methods came to form a growing share of output. Slum clearance and urban renewal became important and, unfortunately, it was progressed further and faster in some cities than in others. It was only towards the end of that period that housing rehabilitation measures became widely developed; at the start of the 1970s they rarely absorbed more than a tenth of public spending on housing - now it is seldom less than a half.

In Southern European cities historic cores have often been untouched by demolition/clearance policies though they often now require extensive upgrading. The 60s and early 70s were periods of low inflation and near full employment for tenants in Europe most of whom then lived as family groups. It is only since the start of the 1980s that social housing in a number of countries has become associated with unemployment/dependent tenants, fragmented families and ethnic minorities.

There were, however, some important divergences in the way in which countries reacted to enhanced prosperity in the 1960s. A number of countries like the Federal Republic of Germany and Denmark all recognised quickly that the rent levels that had prevailed in the 50s reflected emergency conditions. And as recovery and prosperity returned to the 60s, rents were moved up in line with, or ahead to, incomes ensuring that new construction patterns and different tenure prices did not get out of line with rents in the social sector.

These changes also sparked off a re-targeting of assistance with a growing emphasis on person-related subsidy rather than bricks and mortar support. Some countries, such as Denmark and Germany, have started this process in the early 1960s, others such as France and Britain took until the end of the 1970s to make these changes. In general, however, the period was more characterised by production than distribution concerns.
In the second post-war phase there was a continuing growth of social housing. In Scandinavia, the UK and The Netherlands by about 1975 a quarter of the population were housed in the social rented sector and in most of the rest of Western Europe about half of this proportion. A number of caveats of social housing was not defined by housing tenure but by the status of the occupant. In Germany, in the early 1970s, 10 per cent of all housing was provided as social housing by housing associations but about 3.5 per cent of social housing was rented out by private landlords and there are similar overlaps in the way that policy really operated in France at that time. In other words more often concern about the outcome of policies rather than specific tenure dominated policies, the UK excepted.

At that time there was also some deregulation of private rent levels. Almost every country in Western Europe had rent controls from at least 1945 and some from 1915. As the extent and form of private rent deregulation varied, the relationship between private and social rents began to diverge across countries. In contrast to the ‘Fair Rent’ system introduced in the UK in 1968 the pricing schemes in Denmark and Germany, for example, were somewhat more generous to landlords and much less likely to discourage investment and private rented housing.

In Southern Europe, rent controls imposed in 1948 remained in place in Portugal and Spain and income related support were not developed. There and in Britain and Ireland, private rental housing continued to decline sharply in quality, contributing much to the decayed quality of central city areas (where it was and still is an important tenure). Where the sector became coincidental with an image of decay governments have, until recently, sought housing policy solutions through the other major tenure sectors.

In consequence in Phase 2 from 1960-75, whilst social housing continued to expand in most of Western Europe private rented housing declined almost everywhere. The rate at which it declined was influenced by how rent controls were re-fashioned. In the same period the importance of tax subsidies for home ownership and indeed more explicit supply subsidies began to become important. Taking these influences together, from the 50s and into the 60s social housing was always able to out-compete private rented housing for resources, and political support. In the later 60s, home ownership began to emerge on political agendas and take a larger share of the housing subsidies that were available in these systems.

These housing policy thrusts from 1950-1975 occurred against the backdrop of large scale welfare state expansion. In almost all the countries of Western Europe the share of the public sector in GDP came to exceed 40 per cent by 1975. And within that context housing expenditures comprised between 10 and 15 per cent of national public spending budgets. This was the hey-day of housing spending, and social housing captured the lion’s share of resources.
2.4 Phase 3 - New Realities for Housing, 1975-1990

2.4.1 New Priorities

In the earlier two post-war phases from 1950-1975 social housing did well, reflecting the strategic importance attached to housing issues and the belief that shortages of housing required social investment. The third major post-war phase, from the mid-70s oil shock onwards, has given a lower priority to housing issues in Northern Europe, but new housing agendas have emerged in Southern Europe.

The period since 1975, or from the oil price shocks onwards, can be subdivided into two phases. The initial inflationary impacts of macro-economic change were, in some short-term senses, quite beneficial to housing investment. Initially public spending remained high, rental subsidies often increased to assuage rent increases and owner-occupation was encouraged by steady price rises and low, sometimes negative, real interest rates.

However, these broad economic patterns were not sustainable and the 1980s marked the inset of a more global priority to reduce inflation and restrain government spending. And, again with lags in timing across countries, there have been rapidly changing beliefs about the role of the state in housing provision. Starting in Britain and Germany in the late 1970s through to similar shifts in the Netherlands and Sweden a decade later there has been a scenario of emergent deregulation, competition and, at least in Britain, privatisation in housing finance, management and ownership, and related areas of economic activity. In broad terms it has been a period when issues of tenure, price and system efficiency have been accorded more priority than subsidised output though, increasingly, housing regeneration has been a growing activity in all countries.

Housing and housing finance systems have become more market oriented, competitive and opened up to economic pressures. And in this process rental housing in general (and in Germany at the end of the decade) displayed cyclic variation but relative long term stability, see Table 2.1.

However, relatively constant investment shares have been translated into fewer units produced as real long term house price increases have been widespread. In some countries such as Denmark, France and, most notably and recently the UK there have been periods of high, sustain real house price increases followed by sharp real falls (in Denmark in 1987 and 1990, in France in 1988 and in the UK since 1990). In other countries, notably Germany, Italy, Portugal, real house prices have risen at very modest rates - see Table 2.2. These variations are important in the future context of convergence.

Social housing in particular has experienced considerable difficulty, though ownership markets have also encountered difficulties in some countries since the mid-1980s.
Table 2.1  Gross investments in dwellings (% of total gross investments in assets), 1980, 1984, 1987

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Danmark</td>
<td>28</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td>Deutschland BRD</td>
<td>28</td>
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<tr>
<td>ehemalige DDR</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ellas</td>
<td>29 (3)</td>
<td>22</td>
<td>26 (2)</td>
</tr>
<tr>
<td>Espana</td>
<td>29</td>
<td>22</td>
<td>26</td>
</tr>
<tr>
<td>France</td>
<td>29</td>
<td>30</td>
<td>24 (4)</td>
</tr>
<tr>
<td>Ireland</td>
<td>23</td>
<td>23 (5)</td>
<td>22 (4)</td>
</tr>
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<td>Italia</td>
<td>27</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>23</td>
<td>16</td>
<td>17</td>
</tr>
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<td>Nederland</td>
<td>29</td>
<td>28</td>
<td>26</td>
</tr>
<tr>
<td>Portugal</td>
<td>17</td>
<td>22 (5)</td>
<td>20</td>
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<tr>
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<td>15</td>
<td>22</td>
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Table 2.2 Development of real estate prices of housing, index 1985 = 100, adjusted for inflation, 1986-1991

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<th></th>
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</thead>
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<td>5.6</td>
<td>8.8</td>
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<td>-1.0</td>
<td>-5.1</td>
<td>-9.7</td>
<td>-1.2</td>
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<td>1.0</td>
<td>1.0</td>
<td>3.8</td>
<td>2.8</td>
</tr>
<tr>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ellas</td>
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<td>3.9</td>
<td>0.9</td>
<td>0.9</td>
<td>3.7</td>
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<td>7.4</td>
<td>3.1</td>
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<td>France</td>
<td>1.0</td>
<td>1.0</td>
<td>-5.9</td>
<td>9.4</td>
<td>10.5</td>
<td>-</td>
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<td>Ireland</td>
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<td>-3.0</td>
<td>6.3</td>
<td>4.9</td>
<td>10.3</td>
<td>-0.8</td>
</tr>
<tr>
<td>Italia</td>
<td>-3.0</td>
<td>0.0</td>
<td>1.0</td>
<td>-1.0</td>
<td>2.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>4.0</td>
<td>3.8</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Nederland</td>
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<td>4.8</td>
<td>3.6</td>
<td>5.3</td>
<td>0.0</td>
<td>-1.7</td>
</tr>
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<td>0.0</td>
<td>-1.0</td>
<td>2.1</td>
<td>2.0</td>
</tr>
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<td>United Kingdom</td>
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<td>20.3</td>
<td>12.2</td>
<td>-10.2</td>
<td>-6.7</td>
</tr>
</tbody>
</table>

Source: Federacion Hipotecaria Europa, Annual Report, 1991/92
2.4.2 Changing Macro-Context

The changing macro-context of the 1980s has had major impacts on housing and cities in Europe. Some housing choices have expanded and some problems have been solved whilst others have emerged. Some major changes are noted below.

Real Interest Rates, Prices and Rents

Reduction in inflation, especially where it was facilitated by higher interest rates, has resulted in significant increases in real mortgage rates in the 1980s, extending into the present.

Reduction in inflation, at least in the medium term, was bad for social housing systems. With historic cost accounting and pricing systems, inflation is often helpful in generating surpluses. Reduction of inflation made it more difficult to balance the account of stagnating social housing in Western Europe. Similarly, in owner occupied markets higher real interest rates increased the user costs of housing capital.

In broad terms the 'macro' housing ratio of rent (and imputed rent) in GNP was also relatively stable in the period (the figures for 1981 and 1987 are indicated in Table 2.3).

These ratios reflect changes in incomes and estimated housing costs. When rents in relation to general price inflation are examined for the period 1980-1989 there are, in fact, quite sharp differences across the EC countries. In the UK (1.39), France (1.12), the Netherlands (1.10) and Denmark (1.05) the ratio of rent increases to general inflation exceeded unity. At the other end of the spectrum Luxembourg (0.91), Spain (0.93), Greece (0.85) and Ireland (0.82) were all coun-

Table 2.3 Macro Housing Quota, 1981, 1987 (1)

<table>
<thead>
<tr>
<th>Country</th>
<th>1981</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgique/Belgïë</td>
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<td>17.8</td>
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<td>26.6</td>
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<td>17.9</td>
<td>18.7</td>
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<td>13.5</td>
<td>11.3</td>
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<tr>
<td>Ellas</td>
<td>12.9</td>
<td>14.3</td>
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<td>17.0</td>
<td>18.9</td>
</tr>
<tr>
<td>France</td>
<td>11.3</td>
<td>11.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>13.5</td>
<td>14.8</td>
</tr>
<tr>
<td>Italia</td>
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<td>20.1</td>
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<tr>
<td>Luxembourg</td>
<td>17.1</td>
<td>18.5</td>
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<tr>
<td>Nederland</td>
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<td>5.0  (2)</td>
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<tr>
<td>Portugal</td>
<td>27.7</td>
<td>19.9</td>
</tr>
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</table>

(1) Gross rent, fuel and power included
(2) 1986

Source: Ministry of Housing, Physical Planning and Environment, The Hague, 1991, p. 64
tries where inflation outpaced rent increases. Arguably the latter set of countries are those where public expenditure constraints had less marked effects on rent - they all have extremely small social housing sectors in marked contrast to the countries with fast rental growth (see further below).

**Income and Employment**

Until the recession of the late 1980s all the EC countries enjoyed significant real income growth - the most potent force in improving housing conditions. However, a second consequence of strategies to reduce inflation was that in most countries unemployment rose. Unemployment rates of 2-3 per cent in the 60s drifted up to 4-5 per cent in the 70s and 8-10 per cent in the 80s. There was fundamental upward shift in the unemployment rate in almost every European country. In Western Germany the rate has been somewhat lower than the other countries but there has been an upward shift nonetheless. Growing unemployment has driven a fundamental wedge between residents and workers and hence between incomes and the inability to pay for housing. And there are sharp urban/regional differences in unemployment. In Britain the overall rate is 10 per cent, in some regions in the north of Britain it’s still nearer 15 per cent and on some council house estates in Glasgow it is about 25 per cent, and similar regional/local concentrations occur in other countries. Unemployment is a fundamental shaper of whether people can afford or not afford housing, in addition to the traditional poverty of the unemployed. Europe has also seen the emergence of new forms of poverty; increased proportion of the elderly; the increased numbers of single parents; a growing proportion of young people who decide at the age of 16 or 17 that life at home is not longer tolerable and they must seek their own housing solutions. Many of them are poor. The EC recently concluded that there are about 44 million people in Europe who are regarded as poor. Usually they are poor not just in terms of incomes but they are poor in terms of their housing conditions. Growing unemployment and 44 million poor in Europe must be set against a sustained growth in GDP per capita in most European economies of 2-3 per cent per annum over the last decade. But growth is unequally distributed by region and income group so that a new pattern of principles for housing policy emerged by the end of the 1980s.

**2.4.3 Reduction in Public Expenditure**

Housing investment programmes became a particular focus of attempts to reduce the share of government expenditure in GNP. Housing expenditure has fallen as a share of the national public budget in almost every country as public spending was restrained. Where it has been 12 per cent, it fell to six per cent, where it had been eight per cent it fell to four per cent and in Britain where it had been six or seven per cent at the end of the 70s, by the end of the 80s it was three per cent. Reductions in real public spending have been rare in European countries in the 1980s, growth in spending at or below the national growth rate was more
commonplace. But investment in new social housing was an exception to this rule - in many countries it decreased in real terms. In Denmark, social housing output fell from 12,000 in 1982 to 9,000 units per annum for much of the rest of the decade. In the Federal Republic of Germany, in 1982, 59,000 new social units were approved, and 13,000 by 1987. UK output fell with 1989 output less than a third of a decade earlier, and in Belgium credits for social housing were quartered between 1982 and 1986. Only France, of the major European countries, maintained near constant annual output (at 50-55,000 units) through the 1980s.

National governments curtailing commitments to social housing and squeezing direct and indirect subsidies undoubtedly created problems for social housing providers. In this professional competence, operational ethos, organisational structures were all challenged. All of this resulted in a reduction, either in the absolute scale of the social sector (in Britain and Germany) or only a falling share of the social rented sector in total provision.

National governments are still confronted with the task of improving efficiency of social housing management and where programmes continue they still represent a major claim on subsidised capital spending, see Table 2.4.

Table 2.4 Subsidized percentage of total costs(1) of a subsidized newly built social rental dwelling, 1991

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<th>%</th>
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<tr>
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<td>ca. 60</td>
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<td>Ireland(4)</td>
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<td>100</td>
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<tr>
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<td>-</td>
</tr>
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<td>66</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>75-80</td>
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</tbody>
</table>

(1) Cost of land and building costs
(2) Mietsozialwohnungen
(3) PLA-dwellings
(4) Local authority public sector housing and voluntary or housing associations
(5) Social rented dwellings subsidized by socalled NCW-method
(6) Housing association dwellings

Table 2.5 Households receiving housing allowances (x 1.000), 1980, 1985, 1989

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<th>1985</th>
<th>1989</th>
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<td>Espana</td>
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</table>

(1) Subsidies granted during 1990 only
(2) Only individuals receiving rent subsidy
(3) 1988
(4) 1989
(5) 1987
(6) 1990
(7) Rent rebates and rent allowances


Current account and producer subsidies to social rental housing, in spite of rent increases above inflation, have generally been restructured, with a continuing growth of housing allowances, rather than reduced. Table 2.5 indicates the growth of such targeted assistance from 1980-89. Two points are noteworthy. First, allowances have reportedly grown markedly since 1989. Secondly, it is generally the poorer EC countries where housing allowances are not utilised. Precise estimates of current account subsidies, and more importantly growing tax expenditures for housing, are not available for most countries. Table 2.6 does, however, give some insight into the direct government expenditure (both new and old obligations) and the loss of fiscal income with regard to housing as a percentage of the Gross Domestic Product (GDP) over the periods 1980-1984 and 1985-1988 for 6 EC member states and Sweden (included as an EFTA-country with a strong tradition in housing policy). The fiscal loss relates in any case to the (net) loss, which is bound up with the fiscal treatment of the owner-occupied dwelling. The first striking aspect is that a reasonable agreement exists between the ranking based on the policy points of departure towards more market oriented systems and the ranking based on government expenditure. Thus, in the first half of the eighties, Sweden occupies the first position in both
Table 2.6 The ranking of 6 EC-countries and Sweden by the average absolute level of the percentage government expenditure and the percentage of fiscal loss (both expressed in GDP), for the periods 1980-1984 and 1985-1988 (ranking by decreasing average proportion)

<table>
<thead>
<tr>
<th></th>
<th>direct subsidy expenditure</th>
<th>fiscal loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1980-1984 (average %)</td>
<td>1980-1984 (average %)</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.26</td>
<td>1.65</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.59</td>
<td>0.98</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.97</td>
<td>1.68</td>
</tr>
<tr>
<td>France</td>
<td>0.84</td>
<td>1.00</td>
</tr>
<tr>
<td>FRG</td>
<td>0.66</td>
<td>0.83</td>
</tr>
<tr>
<td>UK</td>
<td>d</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>d</td>
<td></td>
</tr>
</tbody>
</table>

(a) If for the period 1985-1988 for the Netherlands only half of the amounts of the Urban Renewal Fund are counted as property subsidies in housing, the average percentage of subsidies (expressed in GDP) for the Netherlands is 2.05.

(b) Known only for the years 1987 and 1988.

(c) This relates only to direct government subsidies, the relevant employer's contributions and social security expenditure in the period 1985-1988 amount to on average 0.64% of GDP.

(d) No data available.


rankings with on average the highest level of the percentage of housing subsidies in relation to GDP.

For both rankings The Netherlands follows in second place. In the position based on the level of government expenditure Denmark, France and the FRG follow at a considerable distance. With regard to the ranking based on policy points of departure only Denmark and France differ in position.

In the second half of the eighties Sweden and The Netherlands again score highly and are both in first place with an equal average percentage of subsidies of 2.14. In Sweden there is a declining proportion of subsidies, whereas in The Netherlands the percentage is rising until the end of the eighties.

2.4.4 The Market Sectors

Throughout the 1980s private, like social, rental sectors have tended to reduce in scale. Growth in household numbers, now sharply reducing, has been housed by expansions in home ownership. In most countries the owned share rose by 2-5 percentage points over the last decade reflecting growing incomes (for those in employment) burgeoning tax concessions (probably now Europe's largest form of housing subsidy) and easier access to mortgages (as financial sector deregulation has recoupled mortgage lending more directly to general capital and money markets). In some countries, such as Britain and Ireland, subsidised sales of social units to tenants have accelerated ownership growth substantially, so that
Table 2.7  Tax treatment of owner occupied dwellings, 1988
(x = Yes, exists/- = No, doesn’t exist)

<table>
<thead>
<tr>
<th></th>
<th>Imputed rent tax</th>
<th>Interest relief</th>
<th>Relief of maintenance costs</th>
<th>Tax on asset gains from selling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgique/België</td>
<td>x</td>
<td>x (1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Danmark</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x (2)</td>
</tr>
<tr>
<td>Deutschland BRD</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>- (2)</td>
</tr>
<tr>
<td>chomalige DDR</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ellas</td>
<td>x</td>
<td>x</td>
<td>x (1)</td>
<td>x (3)</td>
</tr>
<tr>
<td>Espana</td>
<td>x</td>
<td>x (1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>x</td>
<td>x (1)</td>
<td>x (1)</td>
<td>x</td>
</tr>
<tr>
<td>Ireland</td>
<td>-</td>
<td>x (1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Italia</td>
<td>-</td>
<td>x (1)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>x</td>
<td>x (1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nederland</td>
<td>x</td>
<td>x</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Portugal</td>
<td>x</td>
<td>x (1)</td>
<td>x (1)</td>
<td>-</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-</td>
<td>x (1)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) Limited
(2) Only when sold within 2 years
(3) Established in 1991


there and in Southern Europe home-ownership now houses seven-tenths of the population. But even where ownership is still less than the majority share the sector has expanded relatively rapidly.

Tax concessions for home-ownership, although growing, vary in scale and form from country to country. Notions of tax neutrality differ but, in general, economists regard 'neutral' treatment of housing as comprising allowances for mortgage interest and taxation of imputed rent and capital gains. Such an approach is largely missing in Europe and in consequence there are large fiscal breaks for housing, see Table 2.7.

2.5 A New Phase?

National averages, where available, show that over the last decade Europe’s housing has become larger, better finished and with more amenities than in the past. But these averages conceal growing inequalities and it is these inequalities which are now threatening to have a negative effect on the quality of urban life in Europe and to create a new context for housing policies.

In the northern affluent, countries inner city regeneration policies, dominated by housing investment, have improved living conditions for the poor and affluent alike in central city, older neighbourhoods. But two problem scenarios are
becoming evident in European cities. In southern Europe, with little social housing, low income and unemployment households generally live in low quality, crowded and insanitary housing which has been devoid of investment since rent controls were imposed, often half a century ago. Further shanty towns and illegal settlements are evident on the fringes of towns in Spain, Portugal, Southern Italy and Greece and there housing and living conditions are sometimes reminiscent of the Third World. And homelessness is increasing in such locales.

Homelessness is also growing rapidly in growing cities in Northern Europe - Paris, London and Amsterdam, for instance, now have an incidence of street living, begging and sleeping more reminiscent of North American towns. However, in these countries the emergence of "one-thirds/two-thirds" economies and societies is now primarily reflected in post-war social housing. The 1980s have not just reduced the sector in scale but also in quality.

The difficulties that social housing has encountered relate to three fundamental processes and the same processes are evident in different European cities.

First of all, these systems have matured adversely. Social housing in Western Europe in the last 30 years has had a tendency, once put in place, to mature badly. The residents grow older, and very often the allocation systems that are practised mean that elderly residents live in houses that are too large for them, whilst young families live in houses that are too small for them.

The flatness of pricing systems and the nature of housing allowance systems are such that re-allocation is not encouraged.

A further aspect of maturation is that the quality of the stock has become problematic (a third of the social housing stock in Britain and France, for instance, is regarded as being in need of major repairs). The systems that are actually well maintained are those where high rents were charged through the 60s and 70s. Clearly where the maintenance of the stock had not been a central concern of the politicians or, indeed, housing officers involved, then it had not been delivered. The systems that delivered high levels of maintenance were those in which residents were significantly involved in the process. Residents are much more likely to be the long term signallers in social housing rather than politicians or officers and where residents have not a fundamental role in European social housing then some of it is generally problematic. There is often an almost romantic assumption in countries like Britain that all small organisations involve their tenants. They don't. The standard of tenant involvement in German housing association is near minimal contrasting badly even with British councils. However, more local planning and management are now regarded as desirable.

But as these places fell into disrepair the environment deteriorated and vacancy rates grew. In 1986, in the Federal Republic of Germany where roughly only 15 per cent of the stock is in the social sector, there were 28,000 vacant units. In Sweden, even for two years in the early 1980s there was almost ten per cent of the stock vacant. When these vacancies occurred the people who were housed by the system were those who had particular housing difficulties and no housing alternatives. Social housing in Europe in the 50s and 60s was primarily about
housing households who had at least one member in employment, often two, often a family. By the 1980s the social sector was primarily housing people who were not in employment and it was housing disproportionate numbers of single parents and other 'new poor'. Poverty became reflected in social housing partly because of shortcomings in the management of that stock. And, of course, these residents have become poorer as time goes on.

2.6 Now

The proposed provisions of the Maastricht Treaty now confront countries when there are already re-emerging concerns about the adequacy of national housing systems. The key considerations are that:
- though average housing quality is increasing, housing and neighbourhood conditions are deteriorating for many of the poorest fifth of Europeans with growing signs of damaging social exclusion;
- homelessness and rising payments burdens are an emerging issue in almost every country, adverse housing arrangements frustrate social, economic and environmental objectives;
- housing subsidies are still extensive and they primarily flow to middle income households via tax concessions;
- efficient financial deregulation, creating something closer to a unitary market in housing finance, has caused more private funds to flow through highly distorted and nationally variable housing systems;
- private rental housing, which facilitates mobility more than any other sector, is static or declining in scale in every country;
- social housing systems are in a degree of disarray in a number of countries;
- owner occupation has confronted difficulties of high real interest rates since the late 1980s and in 1991 confronted falls in real prices in 1991 (Denmark, The Netherlands, Belgium, Spain, Ireland and Britain).

In 1991, reflecting cyclical as well as secular factors, housing starts fell in all of the EC countries with the exception of Germany. There could not be a more difficult conjunction of circumstances in which to initiate the Maastricht convergence processes and confront the housing sector implications of EMU.
POSSIBLE IMPACTS OF THE EUROPEAN MONETARY, ECONOMIC AND POLITICAL UNION ON NATIONAL HOUSING POLICIES

The Maastricht Treaty is concerned with "social" as well as "economic" Europe. However, the outcomes of Maastricht in relation to specific social policies are so difficult to assess that one can deduce little. It is clear however that European partners, collectively and individually, are concerned to reduce burgeoning homelessness and tackle social exclusion. DG-V initiatives for the homeless, the elderly and immigrants are already in place. Against the background of a rapidly rising volume of refugees and immigrants from Eastern Europe and elsewhere it is clear that much wider action will be required if "social" problems are not to multiply in European housing.

As far as EMU in particular is concerned, 1992 has been a critical year. In the last months of 1992 we have seen turmoil in the currency markets resulting in devaluations of the lira, pound sterling and peseta and the withdrawal of the first two from the exchange rate mechanism, as well as the narrow "yes" decision in the French referendum after the Danish "no". Overall there is continuing political concern about the pace and direction of European Union: the mood looks very different from December 1991 when the Treaty was signed.

The implications of these events for both the Exchange Rate Mechanism (ERM) and the wider project of Economic and Monetary Union are not easy to assess. On the one hand there are many who would agree with the comment of the Financial Times on September 17th, 1992, that "the prospect of Emu is [now] so remote as to be almost invisible". Others disagree, drawing almost the opposite conclusion from the same events. Mr. Michel Camdessus, managing director of the International Monetary Fund predicted that the European Monetary System would emerge strengthened from the crisis, and indeed that events had illustrated the advantages of moving ahead towards greater economic and monetary integration (FT 18.9.92). The perspective of a "two-speed Europe" is now being considered, that is, one in which a smaller group of countries (France, Germany, Belgium, Netherlands, Luxembourg) move quicker towards a monetary union, than some other countries.

As the Maastricht Treaty envisages the completion of the single market, a period of convergence defined by key indicators and then full monetary union, it is possible to comment upon some of the broad implications for housing systems
and markets. If anything, convergence and union are likely to accelerate some of the trends in housing policies already emerging at the start of the 1990s.

In considering the implications for national housing policies we need to take a broad view, going beyond the specific criteria and timetable agreed at Maastricht for EMU which may now be thought to be under considerable threat. We need to consider more widely the impact of economic integration in Europe as well as the specific actions which have already been undertaken by the member states of the European Community prior to Maastricht, especially the Single European Act and the creation of the internal market. These will have (indeed already are having) significant consequences for housing markets and housing policies in Europe even if (to take the extreme case) the Maastricht Treaty fails to be ratified and the specific EMU conditions are abandoned.

The European Community is both a reflection of economic and social integration in Europe, as well as the main factor in the furthering of this integration. The integration process is both an effect of EC policy decisions and an "autonomous" - or perhaps more accurately a market-led - development which makes it complicated to separate the effects of the two components from each other. This in itself is an important research topic.

This problem of separating the policy and market-led aspects is particularly complicated in regard to the housing sector. Housing policy is not recognised as a specific European Community responsibility. It is not an object for a common policy formulation. However, in practice EC activity in a number of related policy areas (competition policy, social inclusion, regional policy, etc.) has major impacts on housing issues. Policy-led developments within the EC as well as "autonomous" market processes will therefore be relevant to the operation of national housing systems.

The broad state of national economies have important effects on housing though, of course, the specific form and extent of housing impacts stemming from economic change are moderated by local policy regimes. The observations set out below are at a general, speculative level and should be regarded as preliminary in nature.

Looking across Europe at present, the general economic scenario (in contrast to the 1970s and 1980s) involves:
- relatively low inflation rates (at around 2-3 per cent), though higher than governments wish;
- high nominal interest rates (with mortgage rates in the range 9-15 per cent);
- as a consequence of the above, historically high real interest rates;
- growth rates of GDP in the general range of 1.5 to 3 per cent with Germany (0.8) and the U.K. (-0.7) lying below that range;
- nominal earnings growth in the range of 4 to 9 per cent per annum, but exceeding price inflation by 4 to 5 per cent per annum;
- rising unemployment with France, Italy, Spain and the UK all exceeding a 10 per cent unemployment rate;
- the ratio of government debt to GDP (net ratio) rising in 1991 in almost all countries and ranging from 26 per cent in the UK to 125 per cent in Belgium.
More specifically in the housing sector:
- social sector rents are continuing to increase at or ahead of the general price level but with private rents relatively static;
- house prices have been either falling or increasing at a slow rate behind general wages and prices;
- land costs are displaying sharp falls in some countries and are stable in others;
- material and labour costs for construction are widely outpacing general price increases;
- household formation rates are falling in northern and western economies;
- housing starts, with few exceptions, have fallen in social and private sectors in both 1991 and 1992.

Across Europe, although there are still pressured markets with increasing output and prices, there is little doubt that high real interest rates (offsetting the modest reductions in mortgage rates induced by pervasive deregulation in mortgage markets) have reduced housing market activity. Demographic pressures in the northern member states are also somewhat less than in the past. Where prices are stable, rather than falling, rising real earnings mean that "affordability" problems are reducing or static. However, the growing volume of unemployed, poor, elderly and low income immigrants means that the least fortunate Europeans are confronting growing housing difficulties. Restrictions on housing spending budgets in the state sector are reducing the flow of new, subsidised rental units and the extent of upgrading of rundown estates. Homelessness, overcrowding, social exclusion and pressures on income related subsidy systems are therefore likely to be increasing in most countries.

Further difficulties are being experienced in Britain and Denmark where sharp reductions in real housing values have resulted in sharp increases in mortgage debt, mortgage default and home repossessions. In Britain the sustained extensive falls in nominal as well as real property prices have resulted in one in seven owners confronting negative equity in their homes. In these countries the state of the housing market is regarded as frustrating national economic recovery through reduced consumption. Prosperous and poorer EC member states are now showing increasing concern with their housing systems.

Although many of these difficulties are cyclical in origin they set a context in which housing sectors may frustrate attempts at convergence or aggravate social and regional inequalities which will hamper the smooth functioning of a single currency Europe (in the longer term). In part this also reflects the trends in housing policy such as growing reliance on market provision, the closer linking of mortgage finance and rates to money markets and the switch from capital/dwelling to income related subject subsidies. All of these policy changes expose housing systems more directly and quickly to broader economic developments and although they may be more efficient and fairer in the longer term, they pose problems in economic downturns.
The ultimate justification for closer economic integration in Europe is the belief that it will lead to economic recovery and faster growth, creating new housing spending choices for those in employment. However, over the period ahead there will be downward pressure on inflation rates but with high real and nominal interest rates. Housing markets will, in consequence, be relatively stable and driven by income growth, with additional impetus from household formation rates in southern Europe. In countries with a recent history of high real house price inflation this structural change in housing market behaviour may prove to be beneficial to economic performance - it makes little long term sense to drive up the price of existing housing assets and distort patterns of savings and consumption away from the growth creating sectors of economies.

Such relative price stability in housing may also encourage the provision of private rental housing, which has generally been disadvantaged by house price inflation. New opportunities for private investors may arise. It is also arguable that such a shift in provision would facilitate European integration and mobility, especially for younger and short-term migrants across national frontiers. This sector deserves more policy scrutiny from most national governments.

Public spending levels and public debt also feature in the convergence criteria. Three kinds of implications arise. First, governments define public spending and debt in quite different ways. Those countries with definitions which include a wide range of items (e.g. in the UK spending of any kind which is underpinned by a government guarantee) would, on the adoption of a common set of criteria (without which the convergence targets are meaningless) be under less pressure to curtail housing spending than those with more narrow definitions. Secondly, outstanding debt on social housing may comprise a significant proportion of public debt. Governments could seek to privatise such debts and this could give wider application to the privatisation and stock transfer policies long followed in Britain and recently followed in Italy. In the longer term the creation of a European market in mortgage backed securities (a secondary mortgage market) could facilitate such a process if currency stability emerged.

During the convergence process, whilst multiple currencies remain and national governments adjust interest rates for primarily or partly external economic reasons, national housing markets will be subject to fluctuations in mortgage rates. This will affect new borrowers where fixed rate mortgages prevail, thus destabilising output and sales levels. Where variable mortgage rates are the norm all borrowers will be confronted with household budget disruptions. More attention, without resorting to re-regulation of mortgage rates, to this policy problem is required - particularly for low income home owners.

There are other, complex adjustments which countries could make as convergence, with relatively fixed exchange rates, encourages cross-national competition. Governments could reduce the size, amenity and insulation standards of subsidised housing, but this acts against the spirit of the EC Green Paper on the Environment. Equally a relaxation of land use planning standards could reduce public costs of housing production, but with an unrecorded growing social cost of higher densities, sprawl and the consumption of the countryside. If this is
matched with reductions in housing-led regeneration then economic convergence and growth across countries may be matched with decreased quality of urban living and heightened inequalities.

A single currency, and particularly a single mortgage rate, would also have major implications for housing market balance within countries. Where urban areas grow rapidly, house prices and rents rise ahead of prices and then feed into wage claims. This inflationary effect can be removed through either downward movement of the currency or higher interest rates. If both these avenues of adjustment are removed, then high housing costs and wages may curtail growth in fast-expanding areas, and this may be beneficial to the surrounding national space — spreading growth more widely. But in a single market with a single currency it may also encourage cross-frontier relations and refashion patterns of inward investment throughout the EC. In consequence, all governments, in EMU, will have to have greater regard to patterns of housing and land price increases if they are to remain competitive. This is a new challenge for governments arising from convergence and monetary union.

There are several different channels by which the process of economic and political integration in general, and EMU in particular, will impact on national housing policies. These channels are shown schematically in fig. 3.1. We discuss these under the following headings:

(i) factor mobility
(ii) competition policy
(iii) economic growth
(iv) lower inflation
(v) lower government spending
(vi) tax harmonization
(vii) citizenship and social justice.

(i) factor mobility
The significance of the Single European Act and the completion of the internal market lies in the fact that they provide for the free circulation not only of goods and services, but also (in principle at least) of factors of production also. As far as capital mobility is concerned, the issues are relatively straightforward. While in some countries - the UK for example - national policy has already moved strongly in the direction of deregulation of housing finance markets and integration of the circuit of housing finance into capital markets in general, in many other countries specialised housing finance circuits remain in which there is government allocation of funds, below-market cost of finance, mortgage rationing, etc. Free movement of capital would suggest greater integration of housing finance markets both with general circuits of capital and with housing finance markets in neighbouring countries. It also implies the possibility of greater cross-border activity by financial institutions and perhaps the eventual emergence of true European housing finance organisations, created through acquisition and merger. Such developments will of course depend crucially on the speed with
which financial liberalisation and deregulation is more generally applied throughout the EC. However, it is perhaps likely that integration of housing finance markets will proceed more slowly than some other financial services, given the importance of local knowledge in correctly assessing lending risks.
Labour mobility is a far more complex issue. It is important to emphasise that the presumed gains in economic well-being which will result from greater economic integration in Europe rest on the assumption that there is perfect (or near-perfect) factor mobility. In the Commission's own estimate of the increase in European GDP which will result from closer economic integration, the rather bland assumption is made that "displaced factors are re-employed". In the abstract world of neo-classical economic theory, no government intervention is needed: workers move in response to market signals given by differential unemployment and wage rates.

In practice, a number of different factors will inhibit labour mobility, not the least of which is the lack of available affordable housing in those regions and urban areas where job opportunities are greatest. Closer economic integration in Europe is likely to widen the disparities in unemployment levels between declining and growing regions, creating at least the potential for increased labour mobility. At the same time it should not be automatically assumed that the removal of formal barriers to movement will necessarily lead to a large increase in labour mobility within the Community. Studies on the USA suggests that workers' mobility is not particularly sensitive to differences in either social benefits or after-tax income (Ermisch, 1991). But whatever the desired level of labour mobility after 1993, evidence from individual countries suggests that inflexible housing markets can prove to be a serious handicap to labour market adjustment.

The relationship between housing policies and labour mobility is important for reasons of social justice as well as economic efficiency. The Social Charter proclaims that freedom of movement is one of the 'fundamental social rights' of EC workers, although what this actually means in practice is not clear. But if the spatial patterns of job opportunities and of rates of economic development are going to be affected by the process of economic integration, then housing policies should be adapted in order to give all EC citizens a reasonable chance of obtaining the employment opportunities that do exist.

Hence there may well be increased labour flows of several kinds: movements from the periphery to the core of the EC; movements of key skilled workers within the core; moves from the older industrial areas to areas of employment and population growth; moves by retired people from northern to southern Europe; migration from outside the EC, particularly from Eastern and Central Europe and from North Africa; as well as refugees.

(ii) Competition policy and liberalisation of markets

The removal of frontier controls will of itself have little immediate impact on the construction sector, given the existence of different tendering procedures and practices, varying building regulations and administrative procedures (Van Oostwaard in Bouw, 1988). But a variety of EC directives are putting pressure on national construction industries to operate in a more competitive manner (Langeveld and De Vries, 1990; Priemus, 1991). These include directives on government tendering, on building products, on the recognition of qualifications,
as well as the 'Eurocodes' category of European standards for use in building structures which came into effect in 1992.

Two directives already apply in regard to tendering practices (Priemus, 1991). The first, the liberalization directive, lays down that member states are obliged to remove all barriers inhibiting the equal treatment of prospective contractors. This can stimulate take-overs and buying into companies in other EC countries. The second, the co-ordination directive, aims at harmonizing the legislative provisions of member states that are of direct application to the creation or operation of an internal market. This directive provides national legislators with guidelines for the consideration of tenders. Currently foreign tenderers - even in border areas - are disadvantaged in bidding for work. Under the EC rules for tendering, governments may not give preferential treatment to national or local firms when awarding contracts for building projects. From 1990 all public works to be put out to tender that have a value of more than 5 million ECU must be reported to the European Commission in Brussels. Details of these projects are entered into a data bank: the Tender Electronic Daily. This increases the possibility of greater competition, although there is still a long way to go before real European tendering is established.

In the longer term, there may also be greater cross-border activity by social housing companies tendering perhaps for the management of existing stock as well as the construction of new units. For example, in Great Britain, the government has announced that management of local authority housing (representing about 70% of the entire rental stock) will now be open to compulsory competitive tendering. This can in principle include foreign companies. Greater exchange rate stability, and a fortiori a single currency would encourage cross-border activity and a more competitive market.

(iii) economic growth

Figure 3.2 shows housing expenditure as a share of total private consumption and GNP level in the countries of the European Economic Area (EEA).

There are two groups of countries: the poorer EC countries and the others. The position of the two groups gives the impression that a wealthier country's inhabitants spend more on housing than the poorer country's. But when we look at only the "other" group, such a pattern does not appear, at least not as long as Sweden and Denmark belong to the picture. This means that stages of development are important for housing, but when all countries have reached that same stage, policies, income distribution and climate will be much more important when differences are to be explained.

The prospect of faster growth is the fundamental long-term economic reason in favour of closer integration in Europe (Cecchini, 1992). Even those who prioritise the control of inflation above all other policy aims are concerned ultimately with growth; their priorities reflect their belief that faster growth is unsustainable without first getting inflation down. If faster growth does eventually result from economic integration, this will have important consequences for housing. In principle, it could lead to simultaneous expansion on both the
Figure 3.2 GDP per inhabitant, and housing expenditure (% share of private consumption) 1990 in EEA-countries

* Housing expenditure (including heating and electricity) as a share of total private consumption, %.

** Gross domestic product per inhabitant. GDP expressed in EC PPS (a value in constant purchasing power based on Ecu 1975 and updated to 1990 using the average GDP price index for the EC).


Demand and supply sides, resulting relatively painlessly in higher levels of housing consumption.

In practice, the supply of housing is relatively inelastic, while housing demand has an income elasticity close to unity, i.e. an increase in disposable income of 1% leads to an increase in housing demand of about 1%. We would therefore expect faster growth to feed through fairly quickly into increased housing demand. This would take the form of increased household formation, demand for higher space standards and higher amenity, and an increased concern with the overall environment of the dwelling as well as just basic shelter requirements. If past experience is a guide we would also expect increased demand for single-family individual houses rather than multi-family collective units and for owner-occupation as against renting.

Given the inelasticity of the supply side, it should not be assumed that this increase in demand would be met by adequate new investment. As a result there would be increased pressure in the housing market, showing up in price levels and in some areas scarcity. Access to housing for poorer households in the face of rising prices, and increased competition would be a major issue. Moreover, increased preference for greater space and for individual units will have import-
ant implications for land-use planning and for environmental policies. These environmental consequences in particular will have implications at the level of the European Community as well as for local and national governments.

On the other hand, more pessimistic observers would argue that current moves towards further integration and monetary union will result not in faster growth, but in a permanent deflationary bias and stagnant real incomes. In this scenario, housing demand would remain fairly constant in real terms. New investment would remain low in the face of high real interest rates and weak demand. In this context, problems of disrepair, an inadequate rate of replacement of the stock, and of affordability and indebtedness would assume greater importance.

(iv) lower inflation

A commitment to stable prices is one of the guiding principles of the Maastricht Treaty. This principle finds concrete expression in the convergence criterion that the rate of inflation of each member state should not exceed by more than 1.5 percentage points the average of the three best performing member states. Whether this, or indeed any of the convergence criteria formulated in the Maastricht Treaty should be taken to be a realistic possibility for all twelve member states during the envisaged time period is open to some considerable doubt. What is rather less in doubt is the commitment of member state governments and by and large the institutions of the EC to an anti-inflationary strategy as the key aspect of macro-economic policy. This deflationary "consolidation doctrine" (Katseli, 1989) is prevalent among policy makers at both national and supra-national levels, reflecting specifically the increased influence of finance ministers and central bankers, as well as the move away from Keynesian policies and interventionist solutions during the 1980s.

If EMU does succeed in bringing about permanently lower inflation throughout the EC, there will be a number of consequences for the operation of housing markets. One effect of inflation is to lower the after-tax user cost of housing for mortgagors. Unanticipated inflation redistributes income and wealth from lenders to borrowers, and leads to windfall gains to asset-holders such as homeowners. This is a major reason why owner-occupation proved to be a good investment decision for households in the 1970s. Conversely, if the 1990s are to be a period of permanently low inflation, then the real costs of home ownership may rise. This will have important effects on tenure choice by households, and also on affordability. France is an instructive example in this context. Throughout most of the last decade it has pursued a tough anti-inflationary policy based around the 'franc fort'. Households who bought property on credit on the assumption that inflation would quickly erode the real value of the debt have found the reality to be very different. Together with stagnant real incomes and persistently high real interest rates, this has led to 'blocage' in the housing system as well as an increase in affordability problems.

Commitment to ERM/EMU and a low inflation regime will clearly have most impact on previously high-inflation economies, reducing future growth in the
asset price of owner-occupied property below what has been experienced recently. For example a report by John Ginarlis (1992) for the PA Consulting Group predicts major impacts in Britain: "[O]ne of the greatest failures of the Anglo-Saxon economies in the past 50 years is that the periodic massive increases in housing finance have not flowed through into commensurate increases in the construction of new houses and additions to the housing stock. Instead the increase in housing credit has been soaked up overwhelmingly in house price inflation of the existing second hand stock - so in turn perpetuating the religion that this is the soundest form of saving and investment and helping to maintain the upward pressure... We do no believe it is possible to experience double digit house price inflation without double digit money supply and credit institution growth."

A related question is that of interest rates. Convergence of long-term interest rates is another of the Maastricht EMU criteria. Lower and less volatile interest rates will, it is argued, provide a more stable environment for decision-making by both producers and consumers. In terms of the housing market, this would imply a greater readiness to undertake new investment. However, although short-term interest rate differentials have narrowed considerably among ERM members, there are still differences between those in the 'slow' and 'fast' convergence lanes (Anderton, Barrell and in't Veld 1991). Moreover, as these authors put it, longer term interest rate differentials "have not shown such clear evidence of convergence as short-term rates, especially for Italy, Denmark, Spain and the UK." This implies that markets do not expect a monetary union involving all EC member states to be formed, an expectation that has no doubt been strengthened by recent events.

Lower inflation and lower interest rates will also impact on housing policies via the intermediation of house price inflation rates and housing credit mechanisms. This raises a number of important research questions which require further analysis. For example, what effects will lower house price inflation have on the attractiveness of housing vis-a-vis alternative investments, especially in those countries of traditionally high nominal house price rises? At the same time, to what extent will lower house prices improve access to the owner-occupied sector for younger households, thus increasing household formation rates? More generally, will a more stable environment in terms both of asset prices and of the cost of funds induce a greater orientation towards consumption rather than investment aspects of housing?

Methods of financing investment in housing, in both private and public sectors, might also be expected to change in a less inflationary environment, with a greater emphasis on fixed-rate borrowing, lower risk premia and perhaps longer repayment periods. However, the relationships between inflation rates, nominal interest rates and expectations of risk and return are extremely complex. They also depend crucially on the institutional response in each country and hence
issues of greater capital mobility and of competition policy, discussed elsewhere, will also be relevant.

(v) lower government spending

Lower inflation will influence housing policies via its effects on housing markets, i.e. it will affect the expectations and behaviour of market agents on both the demand and supply sides of the market, thereby inducing some response from the public authorities.

A more direct impact on national housing policies will be experienced as a result of the mechanisms through which governments seek to achieve lower inflation. The convergence criteria discussed above indicate that deflationary fiscal policies will need to be pursued for many years by the member states in order to attain and keep fiscal deficits at 3% GDP or below and government debt at or below 60%. There is considerable scepticism about whether it is likely that all member states will meet these targets in the proposed timescale.

But if we take these criteria at face value for the moment, it implies serious restrictions on government expenditure programmes. Reductions in spending will necessarily include housing expenditure, whether in the form of direct bricks-and-mortar subsidies, of housing allowances and personal support, or of indirect tax-expenditures. There is no reason to believe housing would be exempt from the general austerity. Indeed housing programmes are likely to be more vulnerable than demand-driven programmes such as social security. New pressures will emerge to improve the "efficiency" of housing policies. Housing subsidies to social renting may become increasingly targeted, and there are a number of governments already examining ways of replacing "welfare" with "workfare". Regulations and incentives to improve the efficiency of social housing management are also likely to continue, and there may be a gradual Europeanisation of management and finance provision in social housing as the single market develops.

But pressure could equally be applied to tax-expenditures which generally favour owner-occupiers rather than tenants. In numerous EC countries there is an array of evidence that tax-breaks particularly aid high income households and raise house prices. The tax expenditures on housing which expanded rapidly in the 1980s may therefore come under greater scrutiny in the future. There is considerable scope in many countries to reduce the net fiscal contribution to housing without much real economic damage. Hence, for reasons of both equity and efficiency, member states may chose to direct the burden of greater fiscal austerity at the tax expenditure part of the equation. However, to do so runs the political risk of offending against the interests of owner-occupiers.

A serious attempt to try to adhere to the Maastricht conditions could therefore mean that the proportion of GDP going to public expenditure on housing (including tax expenditures) would fall in the 1990s compared with the 1980s. Even in the absence of the Maastricht convergence criteria, a continuing commitment to deflationary fiscal policies will mean pressure on housing budgets at all levels of government.
(vi) tax harmonization
At present there are considerable variations in the tax treatment of housing in the different member states. For example, while VAT is levied on new residential property transactions in most countries, it does not apply in either Great Britain or Germany (Haffner, 1991). The tax treatment of owner-occupied housing varies widely. In some countries (Belgium, Denmark, Greece, Italy, Luxembourg, The Netherlands, Spain) owner-occupied housing is treated as an investment good, so that imputed rents are taxed while interest costs and perhaps some other costs are tax-deductible. By contrast in France, Ireland, Portugal and the UK imputed rent is not taxed, but nevertheless there is some mortgage interest tax relief. In Germany there is a depreciation allowance, again with no tax on imputed rent (Haffner, 1991).

If, as is expected by many, there is a gradual harmonization of fiscal policy, then there will be important effects on the financial position of both owner-occupiers and private landlords. This will in turn affects the prices of owner-occupied and rented units, perhaps the level of rents, affordability ratios, as well as influencing tenure choice. These impacts will of course differ across the member states, depending on the current fiscal treatment of housing.

Figure 3.3 GDP per inhabitant and tax pressure in EEA, 1990

* Taxes (including legally entitled social security payments) expressed in EC PPS, per inhabitant.
** Gross domestic product per inhabitant. GDP expressed in EC PPS (a value in constant purchasing power based on Ecu 1975 and updated to 1990 using the average GDP price index for the EC).

Figure 3.4 Tax pressure and social insurance systems in EEA, 1990

- Social insurance system rank. 10 Countries have been ranked according to the most generous system in regard to 5 aspects each on 6 insurances (sickness benefit, work injury insurance, parent's cash benefit, child allowance, retirement pension and unemployment insurance). The most generous system gets the lowest number.

- Gross domestic product per inhabitant. GDP expressed in EC PPS (a value in constant purchasing power based on Ecu 1975 and updated to 1990 using the average GDP price index for the EC).


Moves towards tax harmonization will have broader effects too. Figure 3.3 plots GDP per inhabitant against tax pressure. This shows two things. First, tax pressure rises with increasing wealth. Secondly, among the rich countries tax pressure varies considerably, exemplified by high-tax Sweden on the one hand and low-tax Germany on the other.

The Swedish metal workers union has investigated social insurance systems in 10 European countries (sickness benefits, work injury insurances, parent's cash benefits, child allowances, retirement pensions and unemployment insurance). For each category, five aspects have been taken into consideration and the countries have been ranked according to the most generous system, with a low number indicating generosity. In figure 3.4 this has been plotted against total taxes per capita for each country.

Figure 3.3 and 3.4 show that the heart of Europe - France, Belgium, The Netherlands - will be the centre towards which the others will gravitate. In the
poorer EC countries, the future will bring an increase in taxes. In high-tax countries taxes will be lowered. Since public employment is established according to population size rather than population change, concentration will increase. Standardized welfare systems will increase the propensity to move between countries.

(vii) issues of citizenship and social justice
Economic integration in the EC entails major structural change and social upheaval. The freer play of market forces in Europe will produce losers as well as winners, with whole industries, regions and urban areas in decline while others experience rapid growth with attendant problems of congestion. These massive structural adjustments will require a range of social policies if Europe is not to become more unequal, more divided and more conflict-ridden. Included among these there will need to be an adequate housing policy response among the member states regarding both adequate housing for job migrants in the growth areas, and improving housing as well as social and economic conditions in the areas in decline.

The housing policy experience of the last decade shows that housing-led regeneration can change the economic vitality of places in a fashion at least as effective as traditional regional policies. There is a critical issue for the EC in this. Housing investment often lies at the core of environmental upgrading of cities and their wider regeneration. These supply-side urban policies will become even more important if urban and regional imbalances increase after monetary union. The EC has cohesion, environmental and regional policy objectives and therefore has an interest in articulating a clear view of how housing investment can aid urban/regional restructuring.

The theme of social solidarity is a dominant one in the move towards a European 'social space'. The institutions of the European Community have continually emphasised the importance of social issues. Housing is a particularly important aspect of social policy in this regard as it determines to a large degree the life-chances that individuals have. Issues of access to housing, of equal treatment and equal opportunities, not just for citizens of the member states but also for third country migrants living within the EC borders will need to be addressed. Removing discrimination against ethnic and other minorities and against women thus becomes of crucial importance in the construction of an equal and democratic 'Social Europe'. The existence of large pockets of poor, disadvantaged and marginalised groups within an otherwise prosperous community is seen as being not only morally wrong, but potentially threatening. Given the polarising trend within European housing markets (Emms, 1990; Ghekiere, 1991; Fitié, 1993), such groups are increasingly found in specific housing locations, mainly in the social housing sector.

In general it was not the original purpose of social housing to house the poorest strata of society, but from the 1970s on, social housing has been increasingly orientated in this direction: housing allowance programmes have enabled the poor to gain entry; in some countries legislation has provided for a partial 'right
to housing'; and the range of alternatives for the poor (in particular cheap private rented housing) has diminished. Policy towards social housing has therefore become an important part of the 'fight against social exclusion'.

**Concluding remarks**

European integration is already having, and will continue to have, important effects on national housing policies. Some commentators already speak of a convergence of housing policies within the EC in which a specific model has emerged which transcends specific national contexts or national party ideologies (Ghekiere, 1992). Others are more cautious, emphasising the continuing differences between national housing policies (Boelhouwer and Van der Heijden, 1991) and the continuing importance of historical circumstances, political forces and institutional structures (Kleinman, 1992). But all are agreed about the similarities in the development of housing markets in European countries and in the problems which housing policies seek to resolve, about the growing interest among policy-makers and researchers in each country about developments in other EC member states, and about the increased 'Europeanisation' of the policy debate. In conformity with the principle of subsidiarity, the major responsibility for policy formulation and policy implementation in housing will remain with national and local governments. But, as we have shown above, there is also an important role in the 'governance of housing' to be played by the member states acting together and through the institutions of the European Community, taking into account the principle of subsidiarity with regard to housing policy.
APPENDIX I

PROPOSAL FOR AN IN DEPTH RESEARCH PROJECT ON THE IMPACT OF THE EUROPEAN MONETARY, ECONOMIC AND POLITICAL UNION ON NATIONAL HOUSING POLICIES

This Appendix has two purposes: first, to draw out from the analysis presented in the report the key research questions which arise from the impacts of closer European union; and secondly, to set out a programme of research at the European level based upon these key questions. The relationship between these two has to be thought through carefully. Some of the research and policy questions which arise from our analysis will, under the subsidiarity principle, properly be the concern of national, regional and local governments rather than the European Community. Others will be of direct concern to the Community, while still others may be most suitable for research jointly sponsored by the Community and the member states, including specific housing institutions. In formulating a research agenda it is necessary to bear these important distinctions in mind.

The first important step is to conceptualise the links between EMU/EPU impacts, outcomes on housing markets, and the research agenda. A schema for doing this is set out in Table A1.

In Table A1, in each case we follow through the implications of the impact of EMU/EPU into a specific set of research questions. This produces a very comprehensive list of ten broad categories of research topics (labelled A to I in table A1). Taken together these present a major research agenda. Clearly any in-depth research project would need to be based on a selection and prioritisation among these issues. We therefore discuss each category in a little more detail in order to facilitate discussion between the research team and the European Commission DG V about the priorities and timetable of such a research project.

(A) Efficiency and competition in mortgage markets, and opportunities for private investors in the rented sector

The creation of a common capital market with increased freedom for capital mobility will internationalize the mortgage industry. A more competitive environment, lower inflation, lower interest rates and a more stable exchange rate regime - all these factors should in principle contribute towards a more efficient and competitive mortgage market, and a lower cost of finance to home-owners, social landlords and private investors. An important research task is therefore to investigate the extent to which these desirable developments are in fact occur-
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<tr>
<th>Impact</th>
<th>Outcomes</th>
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<tbody>
<tr>
<td>1a. Capital mobility</td>
<td>Integration and deregulation of housing finance markets</td>
<td>(A) Efficiency and competition in mortgage markets; cost of finance to owner-occupiers and investors. Opportunities of private investors in the rented sector.</td>
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<td>1b. Labour mobility</td>
<td>Geographical shifts in housing demand; pressure in urban housing markets</td>
<td>(B) Access to housing by job migrants; allocation processes in private and public sectors</td>
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<td>2. Competition policy</td>
<td>More efficient construction sector?; concentration and oligopoly at European level; cross-border activity by social and commercial housing organisations</td>
<td>(C) Competitiveness and efficiency of construction sector; building costs; standards; industrial restructuring</td>
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<td>3. Economic growth</td>
<td>Increases in housing demand; qualitative changes in demand; household formation</td>
<td>(E) Housing demand forecasts; demand/supply balance; unmet housing needs</td>
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<td>4. Lower inflation and lower interest rates</td>
<td>Lower asset values; higher user cost of capital; tenure choice</td>
<td>(F) Changes in housing costs, household expenditures, affordability</td>
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<td>5. Public deficit and government debt targets</td>
<td>Lower expenditure on housing subsidies Share of housing in public debt.</td>
<td>(H) Effects of reduced and more targeted (selective) subsidies.</td>
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<td>6. Tax harmonization</td>
<td>Differential effects on housing expenses, tenure choice and on housing investment decisions</td>
<td>(G) Changing tenure patterns</td>
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<td>7. European Citizenship</td>
<td>Equal treatment; winners and losers from economic integration; social exclusion</td>
<td>(B) Access issues and allocation processes</td>
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<tr>
<td></td>
<td></td>
<td>(I) Social segregation; marginalised housing estates; crime and social disturbances; racial tension and xenophobia</td>
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ring. A related theme is whether the Anglo-Saxon option of fully deregulated and liberalised mortgage finance markets should be pursued, or whether in fact the emergence of a European market in mortgage finance implies a European regulatory framework. Finally opportunities of private investors in the rented sector will be investigated.

A research programme here could draw very fruitfully on the work already being carried out within the framework of the ENHR's Housing Finance Working Group.

(B) Labour mobility and access to housing
The mobility of labour within the Single European Market will be a key issue of economic and social policy. It is potentially a vast issue, and for our purposes it is vital to concentrate firmly on the specific housing aspects. The focus of research should thus be on access to housing for job migrants and how allocation processes in each housing tenure function. The adaptation, or lack of such, of local housing systems and national housing policies to these new demands will be a key aspect.

In what ways, in each country, do housing policies and allocation mechanisms (both market and non-market) assist or constrain greater mobility of labour, and thereby affect both national and European competitiveness? It is important to look at the issue of access across all sectors. The key issues will differ to some degree from one country to another, but common themes are likely to include:

- access to owner-occupation: availability of finance for migrants; differences in relative prices between regions and countries; availability of national systems of below-market loans and other assistance to migrants from other member states; availability of market information; the emergence of cross-border regional and local housing markets;
- access to social housing: availability of social housing in areas of economic growth; current and forecast levels of new output of social housing in these areas; access and allocation rules affecting the eligibility of migrants; long-distance mobility within the social housing sector; role of the EC in promoting additional social housing to enable freedom of movement of workers;
- access to private rented housing: importance of the sector for migrants, job-seekers and young mobile households; how 'open' are allocation methods?; new output and levels of relets in areas of growth; role of national governments and EC in ensuring adequate accessible supply.

(C) Competition and unified standards in the building industry
There are vast differences in building costs across Europe. Even if we adjust for differences in building quality in a wide sense, there are reasons to believe that there exist large differences in efficiency and in factor costs. It is an important research topic to find out the magnitude and the rationale for these differences. The current situation will be affected by EC directives on government tendering and on building products, and by the free mobility of workers. The outcomes of EC policy are yet to be seen. Most building firms are small, and thus not capable
of executing a construction job in another country. One reason is the risks involved, which may prove intolerably large for a small firm. Another reason is institutional differences and the importance of local knowledge. The relaxation of competition barriers may thus only benefit large, multinational building companies bidding for a few large and complicated projects. Long term prospects are however not well known, and it is probable that comparative research will provide valuable insights.

Similar considerations apply with regard to building materials. On the one hand, a new standard forces building material firms to change their product, which is expensive, especially as the new standard in many cases is more complicated to comply with than the old national standard. On the other hand building material firms which want to export their products can now settle for just one production line, removing important export barriers. The benefit is a larger scale, which ought to reduce costs, and the fact that the unified standard makes it possible for even small but efficient building material firms to export their products to new countries.

The outcome of these conflicting factors in terms of building material costs deserves more research, especially more comparative research.

(D) Efficiency and competitiveness of social housing organisations

The opening of the single market may lead to opportunities for social housing companies and similar organisations, as well as for construction firms. Social housing companies could seek to develop in neighbouring countries, to take over the management of particular estates, or to engage in merger or joint venture activity.

Research in this area should concentrate on two aspects: (i) investigating how efficiency, performance and costs vary between similar social housing organisations in different countries, and what the reasons are for such differences; and (ii) identifying the current potential for cross-border activities by social housing organisations.

(E) Forecasts of housing demand; demand/supply balance; unmet housing needs

Estimating future housing demand and needs requires a consideration of both demographic and economic factors. Table A2 is a collection of some important data concerning the EEA-countries, as a starting point for a tentative discussion around housing needs. Eastern Germany is excluded from the figures. "EC-poor" is Greece, Spain, Ireland and Portugal.

The four EC-poor countries are quite different from the rest: low GDP per capita, high unemployment, large share of employment in agriculture and low taxes. But they spend a large share of GDP on investments (the share of investment usually rising with rising GDP level), and their estimated increase in population (and actual increase 1989-90) indicates a stagnating number of people. As an historical parallel, they seem to be going through that final phase of modernisation that the rich part of Europe went through after World War II.
Table A2  Basic demographic and economic data for the EEA-countries

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<th>Invest./ GDP</th>
<th>Taxes/ pr. cons.</th>
<th>Housing/ size</th>
<th>House hold</th>
<th>Share 20-59</th>
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*EC PPP = European currency at purchasing power parity.
Source: SCB (1992)

until the beginning of the 1970s. If so, this means fast urbanisation and increased household formation among women, youth and the elderly. The large share employed in agriculture is an indicator of a large share of rural population, i.e. a potential group of migrants to urban areas.

Urbanisation means that dwellings, often of poor quality, are abandoned in the countryside, while a surplus demand arises in expanding urban areas. This will push housing prices upwards in the expanding cities, which in turn will put price regulation on the agenda. The increasing building activity, and the substitution of old by new dwellings, will increase the average quality of housing. Such a modernization and geographical concentration of the housing stock has historically given rise to far reaching public support in terms of regulation of the credit market, public loans and subsidies and town planning.

Table A2 also shows that net immigration is a more important factor than the excess of births over deaths for the total net increase in the population. This is true for all parts of the EEA, but especially for EFTA and less so for the four EC-poor countries (the latter because of emigration to other EC-countries). The danger of a diminishing share for the productive population in EC-rich countries could be counteracted by a large inflow of immigrants. But in the short term immigration has its own costs. If unemployment is permanently high, immigrants can be the target of xenophobia and racism, despite their contribution to the economic welfare of the host country. What will happen in this regard is difficult to predict, since the laws regulating inflow of labour power and refugees, can be
changed or used more or less generously. Several of the countries inside the EEA have a low level of natural increase in population. This is in sharp contrast to neighbouring parts of the world, especially North Africa and the Middle East. These issues are clearly relevant also to section B above.

If we take the EEA population in 1990, and assume no population growth but that household structure changes so that the average household size decreases from 2.7 to 2.5 until the year 2000, the number of households will increase by 10 million. In order to house them, 1 million new dwellings will be needed per year. If we then assume that population increases as currently projected, this will mean 1.1 million additional people each year. Assuming that they form households of the size of 2.5 persons, this will imply another 440,000 dwellings each year. In addition replacement of obsolete stock in the EEA is running at about 360,000 per year. Altogether this estimate implies about 18 million dwellings in 10 years i.e. 1.8 million dwellings each year - about the same as EEA output in 1989.

An important research task is to carry out an analytically rigorous estimate of future housing needs and demand, together with expected future supply, utilising both demographic and economic information. This is necessary for several reasons. First, the level of housing demand is important in relation to the future activities of the construction sector and the housing finance industry. Secondly, the level of housing need is important in formulating appropriate housing policies. Thirdly, the balance between demand/need and supply, both currently and projected, is a crucial indicator of emerging 'headline' issues such as homelessness, scarcity and rising costs.

(F) Housing costs, household expenses and affordability
Several factors are relevant here. Lower inflation and lower asset prices should lead to, if not a fall, at least a slower rate of increase of housing costs to households. On the other hand, as discussed in the text, lower inflation raises the after-tax user cost of housing. Moreover, a reduction in general subsidies may increase housing costs to marginal households to the point where they can no longer afford their present housing consumption. Different housing policy systems will attempt to compensate for this in different ways. For example, in countries with an effective housing allowance system, the impact may not be too great. In other countries, such mechanisms are weak or non-existent and a reduction of subsidies may create more homeless households, which is of great importance as it is a policy goal for many EC countries to avoid such effects.

More broadly, the relationship between the level and type of housing subsidies and housing affordability problems is crucial. Any research in this area would need to consider in detail the role of income redistribution and social security policies.

(G) Changing Tenure Patterns
The growth of owner-occupation has been one of the most consistent cross-national trends in the EC in recent years (see Table A3). Indeed it is sometimes
Table A3  Size of owner-occupied sector, 1950-1990, in percentages

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<td>Greece</td>
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<td>-</td>
<td>71</td>
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<td>59</td>
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<td>56</td>
<td>59</td>
<td>68</td>
<td>-</td>
</tr>
<tr>
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<td>50</td>
<td>58</td>
<td>65</td>
<td>-</td>
</tr>
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<td>54</td>
<td>62</td>
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<tr>
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<tr>
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<tr>
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<td>35</td>
<td>43</td>
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</tr>
<tr>
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<td>35</td>
<td>36</td>
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</tr>
</tbody>
</table>

Source: Haffner, 1991; Kleinman, 1992

Table A4  Tenure Structure of EC Countries

<table>
<thead>
<tr>
<th></th>
<th>Owner-Occupier</th>
<th>Private Renting</th>
<th>Social Renting</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>88.3</td>
<td>10.6</td>
<td>1.2</td>
<td>1989</td>
</tr>
<tr>
<td>Ireland</td>
<td>74.4</td>
<td>10.1</td>
<td>12.4</td>
<td>1981</td>
</tr>
<tr>
<td>Greece</td>
<td>70.0</td>
<td>26.5</td>
<td>-</td>
<td>1981</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>67.0</td>
<td>7.0</td>
<td>26.0</td>
<td>1989</td>
</tr>
<tr>
<td>Italy</td>
<td>64.0</td>
<td>23.5</td>
<td>5.3</td>
<td>1990</td>
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<td>Belgium</td>
<td>62.0</td>
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<td>6.0</td>
<td>1986</td>
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<tr>
<td>Luxembourg</td>
<td>59.2</td>
<td>35.1</td>
<td>-</td>
<td>1981</td>
</tr>
<tr>
<td>Portugal</td>
<td>55.9</td>
<td>35.5</td>
<td>4.4</td>
<td>1981</td>
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<tr>
<td>Denmark</td>
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<td>22.1</td>
<td>21.2</td>
<td>1988</td>
</tr>
<tr>
<td>France</td>
<td>54.2</td>
<td>19.7</td>
<td>17.2</td>
<td>1988</td>
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<tr>
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<td>13.0</td>
<td>42.9</td>
<td>1988</td>
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<tr>
<td>Germany</td>
<td>40.0</td>
<td>43.0</td>
<td>17.0</td>
<td>1989</td>
</tr>
</tbody>
</table>

Source: Ghekiere, 1991; Kleinman, 1992

presented (not least by politicians) almost as a 'natural' phenomenon. However, owner-occupation should not be seen in this way. The expansion of the sector has depended on particular conditions on the demand and supply side being fulfilled - conditions which may not necessarily apply in the future. The tenure structure varies strongly from country to country (Table A4). There is a need therefore to look at how the expansion of owner-occupation is proceeding across the member states; at whether in some cases the sector has grown too much; conversely at whether the rental sector is large enough or flexible enough to fulfil the roles required of it. At the micro (household) level,
the issue of debt encumbrance and debt servicing is important. Equivalently at the macro level, the relationship of housing debt with consumer spending and hence the level of effective demand is of major policy relevance.

(H) Reduced and more selective subsidies; share of housing in public debt
In the most recent period there has been a widespread tendency throughout Europe to decrease general housing subsidies. This is a phenomenon not just of the EC but of almost all countries in both Western and Eastern Europe (Kleiman, 1992; Papa, 1992). The main reason has been fiscal austerity, to which will be added the need to reduce a fiscal deficit to be able to qualify for the EMU rules. In addition, in many European countries the housing situation is not perceived as the most urgent task for public spending. It is also generally felt that excessive housing subsidies have a weak redistributive function and are capitalised in house and land prices.

Reduction in general subsidies leads to an increased relative importance for selective subsidies. These may be targeted to specific household groups or to a specific housing sector reserved for vulnerable households.

Research under this heading could include the distributive impact of reductions in and targeting of housing subsidies (including interaction with the income maintenance system, if it exists); whether or not the efficient functioning of housing markets have been improved by these policy measures; impacts on total output; and effects on vulnerable or marginal households such as young households or the elderly. An important issue is determining the share of housing in public debt.

(I) Social segregation and marginalisation
This is already a major area of concern to the European Community. An increasing proportion of the population in all European countries is being marginalized. This has important housing market and housing policy ramifications. Many of these households live in substandard housing in Southern Europe, or in the worst part of a deteriorated social housing sector in Northern Europe. The extreme case of marginalization - homelessness - is also now more widespread in Northern Europe.

Research should concentrate on two aspects - not duplicating important EC initiatives in the social sphere: (1) to describe and analyze the ethnic and socioeconomic segregation that takes place both within the social housing sector, and between different housing sectors; and (2) to analyze the relationship between housing finance and tenure policy in relation to homelessness. In both aspects the focus will be on a comparative perspective.

When specifying the consequences of European monetary, economic and political union for national housing policies one should also consider feedback effects. An inadequate functioning of housing markets and an insufficient housing policy may have negative effects on the achievement of European monetary, economic and political union. An unbalanced housing market can
frustrate labour mobility, encourage inflation and lead to more government spending and a lack of social justice. The relation between European integration and national housing policies is bilateral. That makes an increase of insight into the nature and background of national housing policy of strategic importance in relation to the European monetary, economic and political union.

The in-depth research project referred to in this appendix could be performed in the period 1 January - 31 December 1993 by the same team that has made this feasibility study, under the auspices of the European Network for Housing Research.

The developments in the field of economic integration will be compared with the housing developments in a number of European countries.
Reduction in general subsidies leads to an increased relative importance of selective subsidies. These may be targeted to specific household groups or to a specific housing sector reserved for vulnerable households.

Research under this heading could include the distributional impact of subsidies in and targeting of housing subsidies (including interaction with the housing maintenance system). It is unclear whether or not the efficient functioning of housing markets have been improved by these policy measures; impacts on social output and effects on vulnerable or marginal households such as young households or the elderly. An important issue is determining the source of housing in public debt.

(I) Social segregation and marginalisation

This is already a major area of concern in the European Community. An increasing proportion of the population in all European countries is being marginalised. This has important housing current and housing policy ramifications. Many of these households live in substandard housing in Southern Europe, or in the worst part of a deteriorated social housing sector in Northern Europe. The extreme case of marginalisation - homelessness - is increasingly widespread in Northern Europe.

Research should concentrate on two aspects - the developing importance of housing in the social sphere: (1) to describe and analyse the ethical and socio-economic segregation that takes place both within the social housing sector and between different housing sectors and (2) to analyse the relationship between housing tenure and tenure policies in relation to homelessness. In both aspects this focus will be on a comparative perspective.

When specifying the consequences of European monetary, economic and political union for national housing policy one should also consider feedback effects. An inadequate functioning of housing markets and an inefficient housing policy may have negative effects on the achievement of European monetary, economic and political union. An unbalanced housing market can...
APPENDIX II
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