Living in Assets Without Limits: Towards New Principles for Policies on Housing

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COMMENTARY

Living in Assets Without Limits: Towards New Principles for Policies on Housing

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Piketty (2014) wrote a thought-provoking book on capital, how it evolved over the decades and the role of housing in it. Maclellan and Miao (2016) further elaborate on the work of Piketty and the role of housing, and on possible implications for housing policy. There is a whole range of literature demonstrating that housing more and more changed from a roof over the head into a key asset for households, and a key element in “asset based welfare” policies. The liberalization of financial markets improved access to home ownership and with that to the possibility to build housing equity. For many decades, in many countries encouraging home ownership was the key priority in housing policy and this priority was accompanied by the “dream of home ownership as an equaliser” in societies. However, the dream of the housing markets and home ownership as equalizer and a solution for welfare states is far from reality. Maclellan and Miao (2017) therefore, conclude that it is time for a new “political economy for housing policy”.

This contribution reflects on the paper “Capital, housing and inequality in the 21st century” of Maclellan and Miao, and with that explores new principles for policies on housing. It advocates more emphasis on the roof over the head part of housing in housing policy and for tax policies to deal with intergenerational social equality including housing equity.

Key Observations

Maclellan and Miao (2016) focus on the economic debate and equality, and conclude that housing is critical influence on wealth patterns. The priority in housing policy for home ownership is underpinned by a number of wrong assumptions as Maclellan and Miao (2016) explain in their key observations.
A first observation is that global economic growth is likely to be positive in the decades ahead and that growth will underpin shifts from rural to urban living. This results in demand for housing being income elastic and price inelastic in particular for those at the bottom of the income distribution in urbanizing areas. In other words, scarcity pushes up the prices and makes housing unaffordable for many. Another observation is that supply inelasticity is a fundamental rather than passing feature, such as urban planning, of housing systems. This implies constant scarcity and no perfect market. Therefore, the authors recall Ricardo’s scarcity thesis that this market systems know neither limits nor morality. A final observation is that central governments are withdrawing from housing policy. The time of regulation and decommodification in the housing market seems to have gone. Housing markets are more and more open for global forces and housing policy is left to regions and has to rely on regional resources as well. This implies that matching tax, housing and welfare policies at the national level becomes less evident and more difficult.

Maclennan and Miao (2016) conclude that:

There is a growing reality that poorer households struggling to attain ownership goals and climb on the asset escalator will live in increasingly remote suburban locations with un-recognized quality of life negatives and with risks of local labour market shocks.

**Housing as an Equalizer; a Debate Since Decades**

Piketty (2014) focuses on wealth and comes across the role of housing equity. Maclennan and Miao (2016) conclude that current housing policies foster wealth inequalities rather than reducing disposable income disparities.

This refers to an ongoing debate in the housing studies on the role of housing and social class. It is an old sociological discussion on the impact of housing tenure on social class starting in times of industrialization in the nineteenth century. Engels and Marx in the nineteenth century considered home ownership as a weakness for labourers since home owners are less mobile and therefore more dependent upon their employer. The discussion on the role of housing and particular home ownership was fuelled by the discussion on housing classes by Rex and Moore (1967) in the 1960s. Saunders (1990) following Weber states in his book “A nation of home owners” not only the labour market position, but also the housing market position is important for social stratification. Home ownership is a way to build housing equity and to enter a “home owning class”. Next to the equity argument, Saunders points at the fact that an owner-occupied house provides ontological security and with that a way to escape from collectivization. To summarize, home ownership is presented as a superior tenure and a logic aim for housing policy.

Building housing equity is mostly resulting in a better start position for the next generation since most people inherit housing equity to their children. Hamnett (1991) was one of the first emphasizing this intergenerational effect. However, the role of housing and financial markets changed over time. Since it is possible to release equity, people can support their children in an earlier stage by releasing housing wealth. Moreover, home ownership can be considered a personal safety net available for financial hardship. Emerging urgent needs can be solved by releasing equity from the house by borrowing from the house (Wood et al. 2013). Housing wealth
becomes more and more a source for welfare needs and, therefore, called housing asset-based welfare. The question is whether such a system is adequate and “fair”. A European study on housing equity and the possibilities to release equity from the housing concluded that this solution is most difficult for those in vulnerable positions and vulnerable areas and not existent for the non-home owners (Doling and Elsinga 2013; Toussaint 2011). Housing assets are rather increasing then decreasing socio-economic inequalities. Walks (2016) points at the increasing spatial inequality in his empirical study in Canadian cities. He states that “these findings support a call to seriously rethink policies intended to promote real-estate asset accumulation among private households in the name of social equity” (Walks 2016).

After some decades of deregulation, privatization and marketization it becomes clear that market outcomes and the priority on home ownership in policy do match welfare ambitions far from perfectly. Maclellan and Miao made clear that more home ownership is not an easy solution for housing and welfare needs and this is supported by other empirical evidence.

### Housing Equity: Statistics, Informality and Beyond

Piketty provides very interesting figures over a long period but unfortunately for a very limited number of countries. As often research is hampered by a lack of data, not only in historical research but also current research. Research is limited to where the data are: available statistics on formal home owners and tenants. A big question is, however, how does housing impact those outside of or invisible in the statistics?

Those not visible in the statistics of Piketty are of course the tenants who are just housing consumers paying rent and building no housing equity. Their landlords are in the statistic and it is often not clear when a house is let. Firstly, there is often no need for registration or even stronger there is an incentive to not register for tax reasons. The private rental market, deals largely with the same issues as the home ownership market: pressure on price, (in) elasticity but the asset side is for the landlord and the consumption part for the tenant.

Other people are outside the statistics because they are living with family or friends paying rent or not, they share the house but do they also share housing equity? Little is known about this. Finally, there are people who are home owners, but who lack one or more property rights. Worldwide, many people live in informal housing, an estimation from the world bank is that it concerns 30–50% of the urban population (UN-Habitat 2006). The question is what the value and the future is of these dwellings, how are these considered by policy-makers and individual households? Are these dwellings also considered a safety net and probably a way of asset based welfare?

Many countries face housing affordability problems (Sorek, Begachina, and Charlwood 2015). Since the global financial crisis, the housing market got into trouble as did many people as well as governments. It is tempting for governments to ignore the problem or to frame these problems for example, not as housing but as income problem. The overall conclusion is that old housing systems do not hold anymore and new ones are not in place. However, housing is a basic need so people are creative and find their own solutions; often solutions that do not fit social security or tax rules. There is a gap between the formal policy world, the statistics that support this and real life housing solutions.
Towards New Principles in Policies for Housing

Housing assets as an equalizer is a myth, based on early twentieth century experiences and sold successfully since the 1980s. Many current housing policies are based on wrong (explicit or implicit) assumptions. As Maclellan and Miao (2016) suggest housing markets and on top of that housing policies rather foster than reduce inequality. Housing ideologies do not match with reality and there is need for something new.

The first and surely not easiest step is to reduce expectations such as more equality from the housing market in particular, from home ownership. Supply is by definition inelastic and the market has no limits and no morals, and housing markets are is not equalizers. Housing is attractive in growing areas and risky in declining areas. People will buy in the first anyway and face risk is the second. There is no need to put formal full home ownership as central aim in housing policy and surround this housing tenure by subsidies and tax facilities.

Central governments could reconsider the role of housing equity in their tax policies and welfare ambitions. There is sufficient evidence now to prove that housing equity increases in equality and should, therefore, be a serious element in national tax policies such as capital gain taxes.

The central aim of housing policy should be the roof over the head for all. There is a huge need for affordable housing in particular, in growing areas. It concerns a need for middle-income groups who are crucial for further economic growth as well as for the lower income groups at risk of social and economic exclusion. A national framework for local solutions is necessary such as a legal framework for private rental housing in which there is a viable balance between landlords’ and tenants’ interests. Moreover, a legal and tax framework that enables local initiatives for new organizations and products is necessary to solve problems at the local level.

Maclellan and Miao (2016) made clear that housing markets are rather a problem than a solution. Therefore, the decade-long dream of home ownership as a driver of equality and marketization as a driver of access to this dream should be abandoned. It is better to face reality. Central as well as local governments have limited power to cope with this more and more global problem and, therefore, better focus on aims that really make a difference. New principles in policies for housing could start by tax policies taking housing equity into account aiming at acceptable social inequality and central/local housing policies focussing on roof over the head solutions for middle and lower income groups to achieve inclusive and competitive societies.

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