



# **Housing Policies: New Times, New Foundations**

**By**

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# Housing Policies: New Times, New Foundations<sup>1</sup>

## 1. Housing Policies: A New Era?

This paper uses recent experiences of housing policies in the United Kingdom, Australia, Canada, and New Zealand to consider the possibilities and challenges for modern housing policies. Housing policies within nations have, historically, evolved through a series of stages, involving shifting objectives, altering resource levels and changing means for delivery. Across countries there has always been cross national variety but, at the same time, some common elements that reflect the mobility of technical and political ideas as well as commonalities in the social and economic processes that drive policy change.

This paper argues that changing patterns of economic activity and social priorities, as well as shifting ideological and technical views about how to implement policy, led to new, stripped down, housing policy approaches for much of the 1980's and 1990's. These approaches, in many instances, contracted the scale of policy support, especially for housing production, focussed support on income related assistance and expanding home ownership and removed much of the organizational and human capital required to deliver housing policies. More recently, countries have begun to once again recognize the significance of housing in national well-being, including economic progress as well as social justice, and this has led to new emphases on and approaches to housing policies.

Not all countries have shifted simultaneously. The UK, for instance, has shifted both policy delivery means and made new resource commitments on an earlier and greater scale than many. At the other extreme, much policy in the USA is still in retreat with a penchant for innovation replacing commitments to policy programmes. In New Zealand, Canada and Australia (at the state level), there are presently emerging interests in remaking active housing policies. However their different experiences point to some common drivers in the need to change policy and to develop modern emphases and these are discussed in sections 2 and 3 of the paper. The paper then identifies, in section 4, the common challenges involved in such changes and indicates the particular kinds of issues that arise, and in different ways, in different countries. Particular governance issues that arise in the Canadian context are used, in section 5, to illustrate the ways in which old and new approaches might differ. The paper then concludes with a synoptic view of the common future challenges that housing systems in the advanced economies are likely to confront.

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## 2. Changing Contexts

For more than half a century, from the 1920's to the 1970's, housing policies attracted the extensive resource support of governments in many of the European and other advanced economies. Such policies often concentrated on a rather narrow, quantitative approach to shelter provision and justified that approach on social or fairness grounds. Arguably early housing policies, predating 1920, had been more explicitly rooted in the recognition that decent housing was essential to shaping what Amartya Sen would now call the basic capabilities of poorer households to be healthy, engaged in the market economy, socialized and capable of raising families, and so forth.

That older approach saw the link between housing and productivity and cohesion in ways that were gradually lost in the fairness debates. Often housing policies, in the nature and extent of support, had only the most casual basis in evidence and were long in good sentiment and short in the design to deliver appropriate outcomes. Multiple waves of expensive investment often missed the opportunity to engage community and build social capital. Developments often did not deliver more compact, socially mixed and coherent spaces. And poorer households were frequently disconnected from the emerging opportunities in labour markets and asset holding. These observations are more true of the large public systems of the UK and much of Western Europe, and indeed the failing markets of distressed US cities, than Australia and Canada. But it is true that in these countries also, in the last decade, non-market housing has increasingly housed only the poorest groups whilst poorer homeowners and market renters are being displaced to the metropolitan edges.

The 1980's led to a major retrenchment in support for housing programmes, a withdrawal as poorly designed as the initial expansion. The arrival of neo-liberal macro and micro economic policy thinking in governments, especially in Treasuries, was a harsh climate for old housing policies. The 1980's approaches not only led to retrenchment in support for non-market rental housing but it fragmented the political and administrative arrangements that placed priority on housing as a core area of government interest.

Housing ministries, and ministers, disappeared in many national and state administrations, and the insignificance of housing in policy thinking was reflected, often, in frequent turnover of junior ministers through housing posts. National housing agencies, and/or local housing authorities, had their scope diminished in many instances. Housing policy research and professional development were stalled for a decade or more in many places (though not in the UK). To rebuild a nation's housing, it is often essential to first build the capacity to imagine, plan and deliver new housing policies. And that necessity is now well recognized in the UK and New Zealand, is beginning to emerge in Canada but is all but neglected by the federal government of Australia.

The key features of these approaches, some of which may have had merit in particular circumstances, were a reduction in state support for non-market housing and the promotion of home ownership. That promotion may have been implicit, albeit fiscally expensive, through the continuation of ownership favouring tax policies (with favourable capital gains tax policies for home ownership in all the countries discussed above). In the UK and Australia, changes were also explicit with the introduction of more ad hoc assistance to support first time buyers and

marginal homeowners. Home ownership promotion ran ahead of policies to make markets better informed, efficient and flexible. However the ownership sector, both through the growing flexibility of labour markets and the deregulation of specialized housing finance circuits, came to be linked more closely to market outcomes, and indeed instabilities. There has not, until the last few years, been sufficient recognition that housing markets and market failures matter more than in the past and that housing is a key sector in how the household sector of economies now function.

There was also a fairly ubiquitous shift from tied dwelling subsidies to means tested support for poorer households. The ideology of policy was, in essence that public system failures were high, that market failures were minimal and that the *raison d'être* of housing policy was to provide targeted support for low-income households (fairness at relatively basic levels of quality). New Zealand, in the 1990's, provided the strongest example of such a shift in the OECD countries with reversion to a quasi housing allowance system. That approach was abandoned and reversed there by the post-2000 Labour government who have recognized the negative effects of such changes on poorer renter households and (increasing) homeless households. By way of contrast, Australian public housing arrangements, which still house around six percent of the population including many of the poorest 20 percent, 'distort' rents so that rental burdens fall below a quarter of household incomes (a reminder of a largely extinct support route in much of the advanced economies).

In Britain and Canada, there has been a changing mix of approaches to support low-income housing costs and to subsidize production. Such mixed approaches may often be appropriate. Economic theory would suggest that subsidized loans and grants may be efficient in overcoming inherent market failures where housing produces positive external effects (better health, nicer neighbourhoods, etc.) and that income related assistance is appropriate where there are no market failures but market incomes do not support the socially desired minimal housing standard. These different rationales for housing support are rarely coherently linked and recognized in the balance of policy.

Such issues have been of much concern in the UK in the last five years where there is a national and cross-tenure housing benefit (an income related shelter allowance) to support low-income housing costs. Since 1997, and in marked contrast to the prior decade, there has been a fairly sustained pressure to rationalize public and social sector rents and benefits in England. The level of capital grant available to support production has also risen to reduce pressures for higher rents and alleviate the poverty trap effects in the benefit system. In neither Australia nor Canada does this issue of the appropriate mix of policy receive adequate attention. In Australia, the two issues confront different levels of government with a poor record of collaboration. In Canada, the provincial conception of the shelter allowance, and the allocation of resources to it, seems to be largely unrelated to a detailed understanding of provincial housing systems and needs.

The consequences of the residual/fairness emphases of policy were that housing policy at national and sub-national levels, in Canada, New Zealand and Australia, became largely a resented subset of social security policy. That is, housing policy came to be seen to be about palliative policy and redistribution, often focusing on the homelessness issue rather than about fostering a key integrative system with the capacity to create and support social and economic

change for households and societies. Housing policy lost its script and it became an unwelcome orphan in the politics of bureaucracies and political parties alike.

Recent Canadian debates now correctly point to the linked nature of the housing system and the need for a continuum of action, of different intensities, from the homeless to the middle market. In Australia, in the absence of federal action, it is the states who are leading change, and indeed calling for the federal government to once again recognize and resource policy for housing. Federal funds to support housing programmes are delivered through a negotiated three-year Commonwealth State Housing Agreement (CSHA). In recent years, the generosity of this agreement has been decreasing and most states are now having to reduce investment in existing public housing in order to balance their housing accounts. The federal government argues, however, that the allocation of GST tax revenues to the States, from 2003 onwards, should see State spending replace CSHA support. And there may be some merit in this federal argument. However there is no possible merit for the federal government's near complete disinterest in housing outcomes for low- and moderate-income groups. In New Zealand, the national government has expanded policy support and is set to do so again. However it is in the UK, where housing has shifted smartly up the political agenda throughout Labour's second term, and with housing policies having much expanded resource support, that housing policies have been most re-debated and re-resourced as modern rationales and delivery mechanisms have been developed.

**Housing policies are under new, positive scrutiny in the advanced economies but not because there is an outburst of renewed altruism for the poor. Rather it is because the stripped down policies on the previous two decades are now recognized to have negative implications for economic and environmental as well as social goals of governments.**

The notion that markets left to themselves will function, unfailingly, to serve everyone or that an endless litany of clever partnerships could 'magically' produce decent housing solutions for the poor has been debunked by the experience of market outcomes over the last 20 years. In short, there is evidence in all of the advanced economies that around a fifth of households, or up to a quarter in some nations, will not have adequate resources to afford adequate housing without some form of support. In addition, in the 'four-fifths' market, there are market failures and outcomes which require active interventions or housing policies. There was not the recognition in the 1980's, or in many instances even now, that placing housing closer to the market in provision systems may have had many positives but it also created new policy challenges and dimensions.

In many senses, in policy mixes that were shifting away from 'state' and towards 'market,' and more recently 'community' there has been an unwillingness both on the part of housing proponents and critics to set housing issues in these different allocative contexts and draw out the policy opportunities and potential threats. In the UK, for example, stock transfer policy, moving from state to non-market owner has involved no systematic thinking about the community vehicles and new systems required to deal effectively with new priorities. Many housing and neighbourhood renewal efforts in the UK after 1997 aimed to devolve power and strengthen the role of communities. However, in some instances, centralist local government has largely hijacked and frustrated community approaches without real devolution of power.

In Australia, the State Offices of Housing have been natural monopolists in public housing provision who have seen no reason to accelerate their own (inevitable) demise. Often they have helped perpetuate a belief that community housing comprises strange homes for strange people provided by strange landlords. The Canadian approach is more diverse and the community/not-for-profit sector better established. However, in all the countries discussed in this paper, there are still ambiguities about the appropriate providers of not-for-profit homes and 20 years on public housing systems still command some political support despite their apparent limitations in many instances.

In the shift from state to home ownership, there has been a painful and long learning process as policy challenges that emerge from market failures (in finance, land planning, housing supply and consumer information) are seldom envisaged *ex ante* and invariably learned *ex post*. For example, the Canada Mortgage and Housing Corporation has produced provincial level statistical overviews of housing markets throughout the country. However there has been much less work on assessing housing needs and affordability outcomes in more local housing systems. In the last five years, the UK has greatly improved the quality and accessibility of housing market data and local housing system assessments now play an important role in resource allocation and investment strategies at regional and municipal levels. In New Zealand, there is a deficit in sub-national information availability and, in Australia, state governments have hardly used the very extensive data that they hold.

Without such information and analysis it is often difficult to argue effectively how why and where housing investment matters. Political neglect of housing has left, in many instances, an inappropriate evidence base for policy development. But in the later 1990's that interest appears to have diminished. In neither Australian states nor New Zealand has the very extensive market information that is freely available been used to monitor housing market outcomes and to forecast change. Heated debate about land zoning and development around, for instance Sydney, Melbourne and Auckland, occur on a regular basis. The price elasticity of supply is a simple measure of how extensively, and or how fast, a housing system responds to emerging demands, or how pressures translate into rising prices or rising supply. But in all these heated debates there are no metropolitan supply elasticity estimates. Housing market policy and planning in these nations is also devoid of economic analysis. The UK Treasury, in 2003, commissioned a review (the Barker Review) of the housing supply and planning systems in the UK. That important review, see further below, revealed the extensive disconnect that now exists between the economy and the housing market in planning thinking and practice. In all the countries considered in preparing this review it was clear that market-based policies need better market understandings, on the part of planners and policy-makers, if coherent policies are to emerge.

Whilst the practice of housing planning and management improved, in many places, and new financial routes to support private investment in housing emerged, there was no evolution of coherent alternative housing policy frameworks. The US, especially under the Bush administration, is a clear example of a national housing approach replete with (forced) innovation but with no coherent policy vision, commitment to or financial support for housing. And in other countries, multiple innovations, often with high transaction costs required to achieve any progress, have often substituted for policy development.

Market failures and public incapacities continued to bedevil housing provision, and still do. Governments need to re-engage their interest in housing policies, but only through a new, wider and modern perception of the role of housing markets and outcomes as key integrative systems within our modern societies and economies. In particular, government's economic policies and thinkers have to develop a wider understanding of what housing is and does in the new social and economic order.

### 3. New Challenges

A new, coherent approach to policy, and the re-adoption of housing policy back to the core of the family of government policies, is essential. Neo-liberal approaches have not swept away 'old' housing problems. They have lessened some difficulties but intensified others. And some new difficulties have emerged.

The Joseph Rowntree Foundation has done much work to demonstrate the ways in which housing matters in the UK, for the economy, society and polity. And the UK government has, over the last seven years at least, begun to rediscover the significance of housing systems. And it has done so because of the problems emerging within 'fragmented' housing policy systems. The UK experience is well publicized so it is perhaps useful to draw out the contrasts and commonalities with Australian and Canadian experience, a great deal of which is reflected in New Zealand experience also.

The Australian experience over the last seven years is set out below, with Canadian contrasts summarily stated. The key developments have been:

- A protracted boom in housing prices, at rates uncommonly similar to the UK, which has only cooled in the last nine months; Canadians too have experienced sustained price increases over the last five years; these price surges have cooled in recent months but with markets landing relatively 'softly' at national scales; there has been considerable regional and local diversity in the extent and timing of booms with this diversity apparently most marked in Canada but also important in the UK; the connections of housing market change to economic shift and interregional and international migration are highlighted by this experience: *What sense does it make for nations to spend a substantial share of their productivity gains in rising housing costs?*
- Average household housing equity has increased from \$140k to \$220k over the last decade; the average savings held by a renter in Australia is \$22k; the housing equity held by the average Canadian has doubled in the last decade also. There has been a dramatic decline in saving rates in both Canada and Australia as households are substituting home equity for cash saving: *What sense does it make to have policies to support low-income renters into decent housing when house price inflation is simply raising the costs of doing so and detaching the lifetime wealth trajectories of owners and subsidized renters; do we subsidize people to become long-term poor? (This was not the case when households moved rapidly through non-market housing and when house prices were more stable.)*

- Equity withdrawal is a new phenomenon in Australia since the late 1990's but is now financing a share of consumption not dissimilar to the UK at the end of the 1980's; this is also a significant issue in Canada: *the capacity of housing assets and debt to enhance cyclical instabilities in our economies is growing.*
- The spread of house price increases out from core metropolitan markets over the cycle so that rural, small town and coastal communities with relatively low wages have endured significant migration driven price increases: *the demographics and economics of retirement are spreading growth and congestion price consequences far from core centre origins and across state and international boundaries; housing systems have national as well as local and regional dimensions.*
- A sharp deterioration in affordability of housing, despite low levels of user costs, especially for low-income households in urban and rural areas, was common over much of the last decade, though the last few years of high income growth in Canada have ameliorated a sharply worsening context: *there is much debate over the precise extent or indeed measurement of such shifts but there is also much evidence of how the policy sets of the 1990's exacerbated such outcomes; the issues involved are not cyclical and not minor, they have significant social and economic costs and they will not simply disappear in good labour market times.*
- A perception that middle-income homeownership is problematic in affordability terms, although it often is not, and a diversion of focus away from the fact that low-income private renters over 50 years old have the worst burdens and the worst housing: *this issue should spell the end of old, simplistic thinking about affordability; leaving aside the ethical judgements, technical and data issues involved, it has become all too apparent that much of the ownership affordability issue is about deposit capacity rather than simply ability to repay and that the use and transfer of wealth within families has a key role in shaping who can enter at early ages; simplistic rent and ownership costs to income ratios no longer reflect what shapes the margin of change. Wealth and housing wealth has a much larger role within this process than policy currently recognizes.*
- A sharp reduction in the availability of low-income private rental properties, especially in upgrading urban areas, and a sustained contraction in the stock of public housing and funding to support it from the federal level (by about a fifth over the decade): *in all the nations examined there has been, at least until very recently, too much emphasis on the demand and burden aspects of policies and too little on the flexibility and effectiveness of supply and planning systems and this has been a direct result of the 'social security' dominance of 1990's housing policy thinking.*
- Evidence that in both the public housing sector and the poorer private rental sector that turnover and mobility have fallen so that there is a near permanent poor population now inhabiting stock that previously acted as a starter base for new migrants and new households; that is there are more trapped households concentrated into particular poor localities, and this phenomenon is also a feature of low-income home ownership: *housing outcomes have more income segregation and negative neighbourhood effects than in earlier policy periods.*

- The evidence, especially in the market sectors, both renting and owning, is that poorer households are being displaced to the edge of metropolitan areas; in Sydney, a decade ago, the poorest 10 percent of renters lived 26 km from the city centre; the average is now 32 km: *adequacy and accessibility as it relates to location and locational distribution have to sit beside affordability considerations and they will differ from group to group; affordability is only one of the three essential pillars of housing policy.*
- Housing and labour market mismatches for poorer households appear to be getting worse as jobs are not shifting out to the same extent/places: *there are no more obvious examples of why housing outcomes matter than those which show how concentrated poverty leads to a reinforcing dynamic of poor skills and low incomes: there is also growing evidence that children fare worse in areas of concentrated deprivation and it is ironic that some nations, including Canada and the UK, are focusing increasing resources on child tax benefits without adequately considering the negative outcomes of poor housing policy.*

Australian federal tax arrangements explain much of the demise of low-income renting, though homeowners in Australia do not receive mortgage tax relief and do pay stamp duty at six to eight percent of transaction values (there is also an annual land tax of one to two percent on values, but with most households exempt from payment). Stamp duty (which is an important state tax base as income tax remains solely a federal tax) and land tax arrangements vary from state to state. Arguments have been made in Canada that the income tax treatment of rental investment income is a serious deterrent to investment, particularly following tax reforms beginning in the early 1970's.

In the UK, arguably, a new core housing policy has begun to emerge because three areas of policy have touched upon housing as a central concern and highlighted the system and place effects of housing outcomes.

1. At the macro and economic scales, the desire to deal with macroeconomic instability, or boom and bust, has raised interest in housing within the Treasury. That interest was reinforced by the concern about the housing market in the European convergence process. It is important to recognize that these points of view are near unique in the Treasuries of the modern world and the UK is well down the path to a better understanding of the role of housing in the economy (though there is some important distance left for both to travel). In other places, however, the rather simplistic 'perfect markets' paradigm which fashioned so much of the argument for curtailing housing policies in the 1980's has remained in place in the mindset of Treasuries. But that reductionist approach, which has been so contradicted by the experience of the last decade, never involved an adequate view of the likely real functioning and potential market failures of housing policies let alone any costing of the spillover or external effects of poor housing and housing shortages.
2. At the neighbourhood scale, the Social Exclusion Unit's (located within the Cabinet Office of the UK government) analyses of what to do about disadvantaged neighbourhoods at first de-emphasized housing solutions, and perhaps were right to do so. But they also underestimated the capacity of housing systems to separate and trap different households. There has been belated recognition of the need to change the ways in which housing systems function rather than provide more bricks and mortar per se. The distinction between housing and housing

system effects has been slow to dawn in much of the UK, as elsewhere. Housing policies have to be concerned as much with systems as inputs in policies. Finally, the UK Urban Summit process (which has been a dialogue about cities issues and policies between different levels of government, NGO's, business and academia) has drawn some attention to the significance of housing choices and markets in shaping city change.

3. Thirdly, many of the 'city' arguments about housing policy and planning have their origins in arguments about re-using brown-field urban land, reducing sprawl and increasing the compactness of patterns of urban development (essentially to reduce car commuting induced greenhouse gases). Such discussions have had wide currency and public acceptability in European and British cities, for instance in England, 80 percent of housing construction in metropolitan areas has to occur on brown-field land. Such issues have also been accepted as routes to change in Australian cities but have been much more deeply resisted by citizens. Housing quality and standards also impact the efficiency of energy usage in significant ways.

These arguments are widely recognized. However there seems to be much less awareness of some of the economic implications of the functioning of metropolitan housing systems. It was noted above that there has been a growing tendency for lower income households to be separated or segregated into a subset of poorer neighbourhoods and that may influence labour market information and positive peer group effects that hamper work prospects for those that locate within such places. But it has also become more apparent that the affordability issues of recent years are forcing more and more poorer households, at least in the UK and Australia, not into city centres but to the outer suburbs, with little public transport and often low public and private amenities. The risk is that some future downturn in city economies, albeit cyclical, may have especially damaging effects on households in such isolated localities within the metropolis. Outer city concentrations of the poor and indeed recent immigration also have come to replace more traditional concerns about such groups within inner cities.

It is widely recognized that population ageing presents important fiscal, and other, challenges to the OECD economies. It is less often recognized that some 70 percent of the global population currently live in (often poorer) nations that are growing younger rather than older. Labour markets, across the set of skills from medical specialists to children's nannies are already internationalizing. In the next two decades, it is the nations that can attract potentially younger and mobile labour that will have fewer fiscal and growth constraints. The cost and availability of housing will increasingly influence the destination of such flows.

Cities, in particular, differ in their capacities to absorb immigrant flows without acute increases in congestion induced living costs as well as cultural cohesion costs. New Zealand already has the highest immigration per capita rate in the advanced economies and Canada and Australia are also high. In contrast to the nations of Western Europe, where there are strong tensions related to ethnic concentrations associated with international migration, these 'newer' countries appear to have stronger, if imperfect, integrative capacities. These strengths, which may have some housing sector explanations as well as impacts, are likely to become more important as labour migration grows globally across the human capital spectrum.

However both the congestion and cohesion costs are likely to increase if recent shifts in the housing system, and especially the disconnect of poorer and median segments of the housing continuum, and the silting up of the rental housing sector continue. Housing is a key integrative system in the economy as well as the society. And the integration with environmental and economic development effects is often at the regional or metropolitan scale.

However this latter emphasis does point up where the UK is weak in conceptualizing housing issues, and ironically it is at the level where the other nations discussed here are quite strong. Both Canada and Australia have well developed and stable three level systems of government. Often regions, provinces and states are dominated by a single metropolitan area and its hinterland. For instance, the Melbourne metropolis comprises 77 percent of the population of Victoria, and it is the state that essentially shapes the framework for metropolitan change.

States in Australia and provinces in Canada have significant expenditure powers, especially in relation to infrastructure and economic development activities. That is, there is much recognition of the case for housing as part of the appropriate infrastructure to promote regional economic development and these matters are dealt with at intermediate government levels.

These possibilities exist in Scotland, Wales and Northern Ireland, and are probably only dealt with effectively in the latter. But in much of the rest of the UK, the separation of interests of Regional Development Agencies (responsible for regional economic policies), the Housing Corporation (which funds the not-for-profit housing sector) and English Partnerships (with a growing interest in promoting low cost housing as well as renewing brown-field land) has hampered an effective route to more strategic land, planning and housing strategies at regional scales. There is a case for regional housing competitiveness audits in the UK and other countries and for integrated economic and infrastructure strategies too. There has to be a new search for effective models of policy delivery to capture – for the benefit of communities – the development gains that generally flow from infrastructure policies. Such gains are important in regeneration areas as well as growth pressure localities.

Housing policy requires a more modern economic approach than the conceptually oversimplified (perfect market) approaches of the neo-conservative agendas of the 1970's onwards. Microeconomics has moved well beyond simple competitive market ideas and macroeconomics embraced developmental concepts to grow beyond monetarism. The housing sector is central to understanding how modern economies operate. Housing is not simply driven by the economy but current housing outcomes can influence future trajectories for change. Further, the effects of housing systems on economic and indeed social and environmental change have to be thought through at national, regional/metropolitan and local/community scales. Multi-level action and interest are, more than ever, required to make effective use of public resources in housing provision. Housing is local, but also has regional and national drivers and consequences. All levels matter.

The approach argues that good analysis has now moved beyond the rather basic Keynesian proposition that housing investment can be an economic stabilizer. For much of the 1990's, economists in the range of countries discussed here have established how housing systems can reinforce cyclical fluctuations in economies and have major economic significance. However, it

is time to move beyond income and instability assessments of housing to a much more explicit consideration of how housing outcomes can impact productivity and economic growth. These effects become easier to comprehend, and indeed are blindingly obvious, when effects are considered at neighbourhood, metropolitan and national levels. Such a change in thinking is essential if the present two-legged stool approach to housing policy development is to be changed.

In brief, there needs to be an evolution of the understanding of the economic and other benefits that rise from easing shortages of housing. That understanding requires three time dimensions:

- The short-term or conventional view, which stresses the employment effects of housing investment decisions;
- The medium-term or cyclical understandings of how inappropriate housing arrangements can reinforce the amplitude and duration of cycles; and
- The long-term, or growth and productivity view, in which there is a fuller understanding of how the housing system influences health and worker productivity, location and job information and accessibility, savings incentives and returns from asset holdings, and the like.

And it must be thought through at three scales:

- The nation, with macro effects;
- The region or metropolitan scale, stressing infrastructure issues; and
- The neighbourhood, with multiple complex spillovers influencing productivity.

The UK, as noted above, both in the Treasury and in housing lobbies, is further down the route to new understandings of these issues to underpin the re-adoption of housing policies. In Australia, Canada and New Zealand, the arguments are only now really surfacing and the UK experience has much to offer in both conceptualizing policy and in drawing attention to the key facets of modern housing policies.

## 4. Modern Housing Policy

The sections above have stressed how the housing context has changed over the last decade and how ideas about the impacts of housing on the ‘big’ goals of government have evolved. It is the shift in these patterns and understandings that has created new commitments to housing policies. But these new contexts and ideas have also encouraged governments to recognize new ways of delivering policy, so that the mechanisms as well as the objectives of policies have changed. As in other respects, countries face common as well as diverse opportunities for modernizing the structures and processes of housing policies. Following from the discussion above, it is clear that there are some broad principles that should shape the development of contemporary housing policies.

A modern approach is likely to have some of the following key features of housing systems:

### *Complex Systems, Improved Outcomes*

- Housing is a complex commodity and housing outcomes affect environmental well-being, social justice, good governance and, of course, the economy. *The UK government is at the forefront of thinking on these issues and many local authorities have also developed understandings of housing change and its relation to social justice and environmental outcomes. At the same time, however, understanding of the economic role of housing remains weak at the local level and governance debates have been inconclusive. In Australia, the federal government has no conception of how it affects housing outcomes nor indeed how housing impacts meta goals, and it has made the mistake of assuming that it does not have to understand or coordinate the systems it has devolved. It is the Australian state governments that have recognized the environmental and social issues but have largely failed to assess the economic consequences of housing outcomes and there has been little debate about how to use housing policies and community involvement to develop better governance. Few local authorities have any real powers in relation to housing and the community sector has been, historically, weak and fragmented. The state of Victoria is just now developing a housing association sector with some similarities to the UK and Canadian models. The New Zealand government has also emphasized the social aspects of housing policy but has recently begun to debate the wider issues relating to the economy and the environment. The Canadian pattern is, in many respects, similar. The federal level interest in the issue has echoes of the UK and New Zealand and offers better policy prospects than the bleakly negative Australian federal position. The recognition of the social issues involved has, as in the other countries, been at the forefront of the debate and the salience of environmental issues have been recognized and acted upon by different levels of government. However there seems to be little coherent understanding in policy discussion of how housing affects city competitiveness and the productivity growth of the nation for the longer term.*
- Housing is a complex activity and the planning, financing, construction, management, maintenance and paying for housing are all connected activities, so that analyses and policy solutions have to take a system wide approach. *The importance of a continuum or system approach is well recognized by the current federal government in Canada and that bodes well for the implementation of a modern approach to housing policy.*

### **Multi-Sectoral, Multi-Level Policies**

- Housing has neighbourhood, city, metropolitan, regional and national dimensions, and this implies a need for multi-level governance of housing if policy is to be appropriately integrated and connected to cognate activities to secure wider outcomes: the modern issue is not ‘whether’ housing policies, but ‘whose’ and ‘how’ they connect. ***The UK and Australian approaches illustrate the significance of a coherent approach in different ways, positively and negatively, respectively, across three levels of government. In the devolved areas of the UK, Scotland, for instance, national level policies on tax and interest rates and housing benefits have to be aligned with Scottish level strategies and resources and the local authority preferences and provisions taken account of. And at the same time there has been a massive shift of subsidized investment and property ownership from municipalities to the not-for-profit sector. The UK government, at the national scale, has had to have national level agencies at hand to help shape local change and to form and develop appropriate local partnerships. National level government has, to a great extent, driven housing policy change in Britain and it has had to address the vested interests of more local scales of government. In New Zealand, the national government has led change and this has largely been uncontested because of the scale and coherence of the country. Australia is struggling to modernize policy because the impetus for change is coming from the states rather than federally. This has raised issues about cost shifting but also the need for the federal government to recognize that it will have to change and integrate rental subsidy/social security provisions if the states are going to be able to develop a modern non-market sector. In Canada, there is a need to rethink the modern roles and related governance arrangements for housing policy. With the federal government, there is both a need to recognize its role in leading and facilitating system change but also its appropriate longer-term role in a modernized system.***
- Effective policy instruments for different parts of this complex of policy levers may lie at different levels of government. For instance, in most countries interest rate policies and social security arrangements are national or federal, whereas infrastructure and planning related policies are often locally devolved.
- To optimize outcomes, delivery may require different sectors, agencies and levels of government to operate in partnership at local scales, and higher levels of government to recognize that they may simply have a partner rather than senior status in aspects of local provision. ***In housing and area regeneration partnerships in the UK, it has been crucial to have the national government involved locally, through the medium of national housing, land and regeneration agents. Such partnerships are usually led or chaired by local authorities and may involve community groups, the private sector and non-housing as well as housing agents of government. This approach has facilitated policy innovation and coherence across different localities. In Australia, state governments have struggled to create coherent housing and regeneration partnerships and city or place regeneration strategies are often state dominated rather than led by local authorities. They struggle to recognize the linkages between housing and other sectors and have had little effective engagement with communities and the not-for-profit sector. These approaches are not modern and often lie about a decade behind British and other West European experience.***

### ***Emphasizing Outcomes, Seeking Effectiveness***

- Policy is concerned about the ends, and not the means, of delivering better or more affordable housing; that is, the power to deliver should rest with the organizations most able to do so and not simply with old structures with vested political interests (for instance, it should not matter whether the state or provinces or cities or not-for-profits provide for the non-market sector as long as the programme is most effectively delivered and the investment has maximum return. The length of time that the housing remains affordable will be a major factor in determining the investment return.). ***The allocation of housing policy resources from national or federal to lower levels of government has to reflect some coherent understanding of agreed assessments of housing investment or subsidy needs. It also has to clearly identify the higher level government's meta interest and how the results of the expenditures will be measured. Nations struggle to be clear in their thinking on this issue and the political economy of implementation is often difficult. However, at the state or provincial level, there has to be a clear understanding of why and how resources are allocated to particular places and sectors of provision. If that element is missing in resource allocation then any attempt to link housing expenditure effectively to desired meta outcomes will just simply fail. Systems of national to local resource allocation have improved in the UK in the last decade and housing investment planning at the regional or devolved level has improved markedly and is particularly well developed in Scotland where local housing plans form the basis of allocation resources to particular places and also spell out the nature of local and national partnerships.***
- The goals and delivery methods in modern housing policies are directed towards the individuals and communities that will benefit and not the producer; the involvement of tenants and communities in the organization of low-income rental housing should generally be extensive, with a focus on creating stronger communities (and higher levels of social capital) as well as better homes; ***the importance of this dimension of policy, both to improve governance in housing and non-shelter outcomes as well as to create social but non-public housing investment channels, has been well recognized in the UK and by progressive Australian states, such as Victoria.***
- There should be contestability in the allocation of resources, so that it is the most effective providers that thrive rather than any policy favoured monopoly. In the UK and Australia (but not in Canada), ***a great deal of resources for low-income housing production has been allocated to state-owned or public housing and often it has been a local monopoly provider of assisted homes; in the UK, the extension of the housing association sector, largely by national government agencies working within the framework of municipal housing plans, has more recently given alternative routes outside the market system. This contestability has given choices to tenants, and many have voted to transfer their public housing to the not-for-profit sector (most notably the city of Glasgow which transferred 90,000 homes to housing associations in 2003), and given government the ability to support the most appropriate providers locally. For contestability to be created, however, the control over a share of resources available has to remain with higher levels of government, or at least its agencies.***

- Modern housing policies will have a strong enabling role for government but a delivery approach that will seek to maximize the interest of not-for-profits and private as well as state investment.
- Policy will support off- (public) balance sheet investments.
- There should be a strategic allocation of functions to appropriate levels of government and there should be regular, comprehensive and effective monitoring where government monies are used either for capital or revenue projects or to support housing provision; *the public scrutiny of the effectiveness of non-market housing providers is, by UK standards, weak in Australia, New Zealand and Canada. In the UK, it has been the growth of the non-profit sector and the requirement that that sector raise around 40 percent of its capital from the financial markets that has necessitated strong monitoring of providers and their effectiveness. The same approach applies in other west European not-for-profit sectors and has generated interesting support, rescue and risk sharing approaches outside of the government sector (an amalgam of approaches such as the French, UK, Dutch and Danish could greatly benefit any attempts to expand the not-for-profit sector in Canada). If the state or municipal sector is left to lead this kind of change, it will not do so as effectively as a non-government community-based approach. It will modernize within its own mindset and the variety and innovative character of these more diverse systems is likely to be lost; new approaches often need new foundations. This issue is simply not recognized in Australia where state offices of housing not only shape housing policy but are also the near monopoly provider of non-market homes. A different culture of resource use has to emerge and it will rarely do so from sub-national levels of government.*
- The effective monitoring of provision should lead to both an evidence informed ‘good practice’ framework for housing and neighbourhood regeneration, which should be disseminated nationally and periodically, but should also be used to encourage innovation in management and delivery. *New information processing systems, such as GIS and smart tagging, are allowing governments unprecedented fast and quality data storage and analysis in relation to service provided. It is vital that ‘centres of excellence’ appear within the policy framework to use such data to better understand and run the housing system. States in Australia have developed excellent property databases and are starting to use them for housing market analyses and monitoring. CMHC has been involved in such work for sometime. This work has also grown in the UK. State, province or metropolitan levels appear to be at an appropriate level at which to develop centres of excellence in housing planning and resource allocation. Use of management information, from the non-market sector, has been much less impressive. In the UK, this exists at national levels and there is a need to transform a regulatory, monitoring device into a centre of excellence in understanding management and partnership effectiveness. There is potential for much cross-area transfer of experience. This has implications for sectoral and territorial resource allocation and is arguably best done by a national agency and not by particular states or provinces.*

### *Effective Strategies*

- Good management presupposes effective housing strategies, for places and organizations. There needs to be a strong evidence informed approach to housing planning which sets housing investment decisions within a vision and informed assessment of change for communities, cities and the nation. *There is, arguably, a housing vision for the UK (or at least for England and the devolved regions) embedded in national strategy statements and departmental five-year plans. New Zealand is also on the verge of a vision for housing, Australia is emphatically not and Canada is working towards a new statement. However, below the national levels, the record is patchy with some provinces and metropolitan areas imaginative in their vision and resource use and others not. Federal governments have to raise the game of all those within their national frameworks and they should ensure that there is some element of resource allocation that reflects plan quality or innovative potential for lower levels of government (indeed there might be merit in cascading this approach down through triple levels of government and to not-for-profits as well).*

### *Dynamic Notions of Fairness*

- Whilst it may be appropriate to have different mixes of housing and income support, these mixes should be justified on clear criteria and the overall effect should seek to provide similar subsidy rates to similar income households. *The UK has a universal housing benefit system that is accessed by low-income households in all tenure sectors (including home owners) and it is available to all. It is a system that does have problems, however in recent years, there have been attempts to give it some internal coherence and to align it with production subsidies. Both average regional earnings and regional rents and house prices now influence the rates of benefit for different kinds of households in different regions of the country. In Australia, social security for tenants' rents is, for a given class of household, uniform across the nation and the entitlement is restricted to low-income market renters and households in the non-profit sector. Public housing tenants are not subsidized in this way but through states being allowed to charge a maximum of 25 percent of income as rent. So the level and effects of subsidies differs greatly from sector to sector, hampering flexibility and adjustment. The present Canadian approach has some serious limitations and will benefit from efforts to identify more clearly the different roles of producer and income subsidies and to adapt resource allocations in line with these roles.*
- Notions of fairness in the distribution of support should not simply be palliative and short-term, but concerned with creating more equal capabilities for the future; for instance rental sector subsidies do not simply leave poorer households on a lower wealth trajectory than those that are assisted to be home owners. Subsidized housing should not be relegated to poorer areas where households will have little chance to fulfil labour market potential because they have to maximize short-term housing subsidy gain. Growing income inequalities create an income divide but this is rapidly becoming a wealth divide as well in the countries studied. *As ideas of asset based welfare become more commonplace, there will, in all the nations mentioned in this paper, be a growing recognition that there may be a case for ensuring some asset ownership or all.*

### *Supply Side Actions*

- A great deal of housing policy is concerned with reducing the price paid by low-income households, usually through demand side measures. There needs to be a much greater emphasis in policy on supply side processes, in constructing more flexible housing responses to the new flexibilities of labour markets and the openness of capital markets. Governments have not rethought the significance of land, property and housing markets in modern economies in any cohesive fashion; *it was noted above that the UK Treasury had recently reviewed planning and housing supply arrangements as explained in the Barker review. That review pointed to the need for better informed and more responsive land use planning. It also highlighted how lack of infrastructure in some areas and the poor condition of infrastructure in other areas can hamper housing improvement. It also drew attention to the need to capture some of the tax income that occurs in so much supply side work and use it to facilitate affordable housing provision. The review also concluded that a core problem in current affordability difficulties is simply the absence of enough decent low rent housing for poorer households. This has led to a resolve to almost double the UK social housing output, largely in the not-for-profit sector, over the next four years.*

There are some limited opportunities to solve affordable housing issues for lower income households through the extraction of gains that arise from government actions in planning (such as development and density rights and inclusionary zoning) and integrating development. There is an extensive economics literature that supports the capture of such surpluses for the community but it is also important that they are not exaggerated.

### *Integrating Actions*

- It will usually be vital to link housing, other investment and people policies, so that joined-up provision becomes a reality at local levels.
- Policy should be concerned with creative solutions with transformative change characters rather than simply palliative social actions.

These principles pose important challenges for governments, at all scales, to rethink their roles and relationships in housing planning and delivery. For countries like Australia and Canada, with three level government systems, they pose major questions. What functions should rest at which level, and what should be the federal and local interest, for example. In Australia, the federal government has not even begun rethinking housing policy and has failed to recognize much of what has happened at the state and city level in recent years. In Canada, the debate is more advanced and it involves how the state should intervene as well as how much.

The UK government, in modernizing policies, has committed to major reinvestment in housing, at rates of roughly 10 times the per capita spent presently in Canada. And it has undertaken commitments to setting statutory housing standards and meeting them by 2012, as well as reducing rental burdens for low-income households and evening subsidy variations across the country within given income groups by different grant and benefit mixes. It has recognized that there are serious market failures, as well as planning constraints, in the rental and low-income housing sectors, so that not-for-profit provision is important and that there cannot be an undue

reliance on income support for market processes. But it has also radically altered the pattern of past investment with not-for-profits and low-income home ownership absorbing much new investment, rather than promoting municipal and public provision. And to effect this change while creating new community capacities and developing a spirit of multi-sector partnerships, central government has retained some of the new investment programmes within its own agencies rather than local or regional government. Central government agencies play key partnership roles in local projects and this approach can be justified on the more complex approaches to policy and non-public resource use.

## **5. Modernizing Approaches and the Case for a National Housing Foundation for Canada**

The UK experience has great salience to Canadian debates about the potential role of a new foundation in modernizing housing policy and affordable housing delivery in Canada. This important question needs to be answered in two steps. First, in the world as it now exists, is the question of whether there is a relevant role or roles for the federal government or its agencies in modernizing housing policy. Secondly, if there are such roles, is there any existing agency that can serve this role or are new institutions required.

A number of lessons can be gleaned from the prior discussion of cross-country experiences in recent years:

1. As housing processes and outcomes have major implications for the meta outcomes confronting national governments, including economic, social and environmental progress, it is clear that federal governments should be concerned about housing outcomes and national well-being. Canada is right to re-engage federal thinking and interest in housing and, at the same time, the Australian federal government is making the wrong national decision in standing back from knowledge of housing outcomes and processes.
2. Federal interest does not, of course, necessarily imply federal action, in the sense of running detailed programmes, etc. It could merely mean ensuring resources for lower levels of government to choose policy targets and the means of delivering them. Subsidiarity or devolution is important in unleashing local expertise and preferences and it must remain a strong element of housing policy. However there are three reasons why the federal government may wish to have some policy role beyond resource provision.
  - First, there is a concern that lower levels of government use resources effectively and this requires both the need for public accountability and requirements to measure appropriate outcomes. This naturally implies an active monitoring role that sits beside resource allocation.
  - Second, if the federal government wishes to improve local performance and to align it with national as well as local interests, a case can be made for them retaining some of the resource to provide incentives for local alignment, innovation and good performance. This may be particularly important where new provision modes are required and

provinces and territories, operating at more local levels, have both policy and monopoly delivery roles, that is, have a conflict of interest likely to prevent effective system change.

- Third, ‘subsidiarity’ debates have largely predated the modern concern of delivering ‘joined-up’ or holistic policy outcomes. Increasingly, there is recognition that housing has to be delivered along with other services, infrastructure and opportunities to ensure that lasting change is made for poorer places and people. Federal government can then easily have a new interest in reaching down to local scales to act as a partner, rather than local leader, in programme delivery.

The housing policy architecture for Canada does need some new design. The paradox of seeking more decentralized and community driven solutions is that the federal government may have to play a significant role in creating the new framework. But after recognizing this necessity, a key issue becomes what works well in present arrangements, and what has to change. What is missing, not just in terms of organizational strengths and structures but human capital capabilities? Also important is what exists that is no longer needed? The key issues revolve around how the nation finances, plans for and manages housing in ways that link to local, regional and national objectives.

Looking at the last 10 years or so of Canadian housing policy, the narrowing capacities and roles of CMHC are apparent. This reflects the roles it was given and pursued, and it is not a comment upon the qualities of staff. A decade ago it provided obvious national housing leadership across a range of issues and was regarded as world class in areas of housing planning, housing finance and its community-based, integrated policies for social housing. Now it is recognized for its mortgage expertise and some limited information and analysis roles. It does not, in its range of functions beyond its obvious mortgage market expertise, begin to compare with the housing corporation in the UK, Communities Scotland, or Housing New Zealand. CMHC is not a national housing agency and its partnership capacities seem to lie largely in financial domains or at the strategic level with provinces and territories.

CMHC does provide some useful national/regional market information. However, as is increasingly the case in other nations (whether federal or not), it is provinces and metropolitan areas that have key strategic planning roles, relating supply and location to economic trends, social change and environmental outcomes. Housing planning, in the strategic land use sense, seems to operate effectively above the level of municipalities but below the level of nations. There is a clear capacity to build upon in the Canadian context. However, it is also clear from the UK and Australian experience that a key emerging competence in effective housing policy is not so much strategic land use planning but the integrated (‘master’)-planning and delivery of place projects in both regeneration neighbourhoods and growth localities. The key issues there are the formation of appropriate vehicles to create gain from renewal and infrastructure provision and to capture as much of it as possible for local communities undergoing change. Recall above the discussion of the need to modernize planning systems so that they do not simply control and allocate growth but that they allow the capacity to create opportunities and to capture them for the community. An important function would be the allocation of lands for affordable and social housing before the point of development. This conception of planning is largely missing in Canada and it is a function which lies closer to local communities than the provincial level but which also needs to lie closer to other sectoral interests of federal and provincial governments.

In assessing the options for a more modern housing system in Canada, there is a case to assess more diverse delivery vehicles which can be off-budget, community engaged and capable of working with land assets and non-housing partners to create homes and capture gains for communities. There is a case for federal government support for such a shift, for at least a decade or so of required change in the system. There may also be a case for a new agent to lead such change. There are potential financial advantages in having that agent established as a not-for-profit and in having the housing sector 'own' its own restructuring and support vehicle.

A broad context and modus operandi for a new foundation could be as follows:

1. CMHC specializes its roles in mortgage finance, for both homeowners and for new not-for-profits and regeneration partnerships.
2. Provinces, working with their major cities, would have the key role in developing housing system analyses, needs assessments and investment plans. They would still receive a substantial housing budget, though new rules for production versus rental assistance approaches would be required, and their plans would spell out their own spending intentions plus the likely roles of the private sector and other not-for-profits.
3. The new foundation or federal agent would have a number of roles designed to transform the structure, management and partnership behaviours of the housing system partnerships:
  - It would be a national organization but could also have a clear provincial structure.
  - At the provincial level, it would operate in partnership with the provinces, creating capacities and partnerships in line with provincial legitimated priorities but also in line with the priorities for change identified by the federal government.
  - It would identify needs for capacity building in organizations and communities needed to create new not-for-profits and to establish cross-sectoral partnerships.
  - The organizations it would create or support could have more than housing functions and should have capacities, in some places, to capture development gains for communities.
  - The foundation would also develop as a centre of excellence in monitoring housing management performance by all assisted, non-private rental providers in Canada and it should develop ways to reward innovative behaviour and to develop mutual support and effective restructuring from within the sector over the longer term.
  - The foundation will wish to support activity in the highest priority areas. To ensure new action and to support partnership with the provinces, the federal government should fund the capacity building and developmental work of the foundation. Arguably, present resource supports from the federal government and the provinces, on a per unit basis, are too low to ensure effective, affordable developments for poorer households. There is a case for funding the foundation to cover that gap between present resource limits and the agreed effective cost level. This would ensure that the foundation, from the outset, would be seen as a key partner and vehicle by and for both provincial and federal governments.
  - At the national scale, the foundation would develop and promote expertise in housing management and neighbourhood regeneration.

## 6. Emerging Interests, Persistent Problems

Housing policy interest and support has risen substantially in the UK in the last three years and the salience of housing issues and outcomes, and their macroeconomic significance, is more widely recognized. In Canada and New Zealand, national governments are only now beginning to examine potential changes and to redress some of the difficulties and inequalities inherited from the previous decade. But the policy scripts still have to be written. In Australia, the federal government shows little interest in housing issues and has a lamentable record even on innovation, although state offices of housing are proactive. But all of the governments involved face major challenges for the future and there, arguably, needs to be a more radical approach to policy, which recognizes the reality of markets and social dynamics as they now exist. All levels of government have to be involved.

The challenges faced by all of these governments include:

- Developing the capacity to understand the economic and competitiveness consequences of housing, land and planning decisions at metropolitan scales.
- Identifying the features of non-market housing systems that will best deliver wider objectives and help to compensate for the undesirable outcomes of market driven impacts.
- Recognizing and dealing (or not) with the issues of unearned capital gains, can governments stabilize prices, can they tax unearned gains or should they simply leave them to pay for the costs of old age? Can governments shift public understandings of house prices?
- If prices are not to be stabilized, should some form of housing asset ownership for all be developed; should, in the UK, government extend, reform or scrap the Right to Buy public housing. What if this were to be capitalized and put as money in the bank for tenants; what of long-term social mobility objectives?
- How could communities own more assets, especially land for urban development, and what are the most effective ways of capturing the benefits from planning and development decisions for community interest?
- How can planning decisions be made both more efficient and more gain capture oriented; and is there a case for simply estimating required outputs in a place and then auctioning the development permissions (to capture the resource rents created by the planning process)?
- How will construction costs fare in an ageing society?

With new ideas and new approaches, appropriate housing policies will be required to address issues that are central to the way societies and economies will operate in the future. There is much to understand and much to do.