Housing Markets, Housing Policies and Housing Finance in an Integrating Europe

by Dr Hugo Priemus

INTRODUCTION

Housing in Europe is changing in several respects. The housing demand as a result of internal demographic developments is still growing rapidly in southern European countries, but is stagnating in the more northern countries. The effect of international migration is of increasing importance. Through political and military developments (for instance the fall of the Berlin Wall and the acts of war in the former Yugoslavia), through the major differences in economic level and through the increase in information on housing and job possibilities in Europe, migration to Western Europe from Eastern Europe and Africa has grown strongly. These immigration flows are increasingly placing Western Europe in a position comparable to that which applied for decades to the United States. The immigration is bringing about a population growth in countries where the development of the indigenous population is at a standstill, and forms a counterweight to the greying that is occurring everywhere. Population development in many Western European countries, such as Germany and France, is acquiring more and more of an ethnic component. Some of the immigrants are well-educated.

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but for the majority of them it is very difficult to get a reasonable job or decent accommodation

Not all Western European countries react adequately to these relatively new immigration flows. In a number of countries extreme right-wing political parties are noticeable. Racism and discrimination are rearing their heads. In the reception and accommodation of immigrants housing substitutes (rooms, emergency housing, commercial boarding houses, caravans etc.) play a major role.

In general, government policy is ill-prepared for this new challenge. A Ministry of Immigrant Absorption, as exists in Israel, is not to be found in any European country. Everywhere governments are trying to strengthen the effect of the market on housing supply, to privatise housing management (Lundqvist, 1992) and to encourage home ownership. The social rental sector, which played a crucial role in alleviating the housing shortages faced after the Second World War, is now on the decline in many countries. The social and political priority of housing as a task has fallen in most countries. The financial burdens on the national budget of an extensive, subsidised social rental sector are no longer accepted in many countries. Housing is being economised on and that is threatening the social rental sector in particular. The indirect aid the owner-occupiers everywhere receive from the tax authorities is much more easily accepted politically than the spending on the social rental sector. Owing to the fact that the subsidies in the rental sector are declining and the preferential fiscal treatment of the owner-occupier is by and large maintained, households, especially those with an above modal income, are increasingly purchasing their own homes, at the expense of the rental sector. With households with a relatively high income moving into larger, owner-occupied homes, those on the rental market are able to afford better homes then they earlier were able to afford. The effect of this should be felt all the way down the housing ladder.

If the economic situation is favourable, this filtering will succeed. In an unfavourable economic situation mobility on the housing and labour market stagnates and insufficient dwellings become free that are affordable for households with a low income. Through the stagnating internal demographic development, house building programmes have contracted sharply in the last 10 to 15 years, particularly in Northern European countries. Now that an extensive and largely unexpected housing demand by immigrants is manifesting itself, it costs considerable effort everywhere to boost the house-building programmes. In a market-oriented housing system, the influx of persons with very low incomes seeking housing does not form an impulse to build more dwellings. Though there is a new need for housing, a new effective demand does not present itself on the market for newly built dwellings. This discrepancy has led to large scale housing improvisation, that may at
best be described as makeshift measures: housing immigrants in former barracks, in moored passenger vessels, in hotels and boarding houses etc. Authorities often claim that it is perhaps largely a temporary housing demand. Once the war is over, once the violence ceases and once a new state is being built in the mother country, most immigrants will return there. That is what the authorities also thought in the sixties and seventies, when guest workers were recruited in Southern European and North African countries. Later it proved that by far the majority remained, having become accustomed to the new culture, and above all, to the higher level of prosperity. In many cases, the movement of families from the mother country to join their relatives abroad led to a second wave of immigration, and created a demand for large, cheap dwellings that was difficult to satisfy. Even now, it seems unlikely that most of the foreign immigrants, many of them asylum-seekers and refugees, will return to their native countries. Allowances will have to be made for the second wave of immigration which will take place when workers are joined by their families.

Many Western European economies have privatised or decentralised housing. By decentralising housing, the State passes on financial risks to lower authorities, social lessors and occupants. The share of the social rental sector in new construction has strongly contracted everywhere. In most countries the growth of the social rental sector, which has been high since the Second World War, has stagnated. In some countries, especially Great Britain, the social rental sector is now declining in size. In Eastern Europe, decentralisation is taking place on a large scale: the extensive State housing property is first transferred to the local authorities, after which many local authorities offer the dwellings for sale at generous discounts. In many cases, the sales price has barely more than symbolic value. In Great Britain prospective buyers must come up with a substantial sum, but here too the discount is a considerable one. In Britain, the ‘right to buy’ has been in effect since 1980. The policy of the social lessor is immaterial: irrespective of the lessor’s opinion the tenant has the right to buy the dwelling. Occupants with a relatively low income can also buy a home in this way. If the mortgage rate rises, the price of the dwelling may drop below that of the mortgage debt (negative equity) and many new owner-occupiers may face difficulties with their repayments. It is not a coincidence that in the only Western European country with a contracting social rental sector, Great Britain, there is a lot of homelessness, especially in the cities.

The market for owner-occupied dwellings has been growing substantially in many Western European countries. Until recently, there was only one main type of mortgage, the annuity mortgage, whereby the sum of interest and repayment remained nominally constant throughout the years. In recent years the range of loan products has grown: the rate of repayment can be adjusted to specific circumstances, the annual expenditure can be indexed in various ways, more and more links are established with life insurance or with unemployment insurance, and possibilities of deriving maximum profit from fiscal advantages are capitalised on.

In a number of countries, such as Great Britain, a secondary mortgage market has developed along the lines of that of the United States. Mortgage loans can be dealt in internationally, as a result of which the financing of real estate has become more flexible and more liquid (securitisation). As institutional barriers between European countries are done away with, the mortgage market is becoming more international and it is expected that the secondary mortgage market will grow in importance.

There is much speculation as to what effect the jerkily proceeding European integration will have on national housing markets and on national housing policy. This question has been the subject of a recent study undertaken for the European Commission under the auspices of the European Network for Housing Research. The next section has been taken from the report of this study entitled ‘European Monetary, Economic and Political Union: consequences for national housing policies’ (Priemus et al., 1993).

**EUROPEAN ECONOMIC AND MONETARY UNION**

Europe is unmistakably in the grasp of the Treaty of Maastricht (Laflan, 1992). Economic and monetary integration is coming about in fits and starts. Efforts are also being made to attain greater political unity in Europe. Although housing continues to be the responsibility of national (and local) authorities, a variety of effects on national housing may be expected from the increasing European integration, a proposition that forms the central theme of this contribution. Attention is devoted to the Treaty of Maastricht and the convergence criteria applied in it.

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 five objectives of the European Community are as follows (Council of the European Communities, 1992):

- 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 an 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 force;

- 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 co-operation 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 co-operation 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.

The Maastricht Treaty contains agreements on in particular the European Monetary Union (EMU) and the European Political Union (EPU). Goals of the Economic and Monetary Union are:

- establishing a stable monetary and financial-economic framework;

- economic integration, liberalisation and deregulation.

All this is directed towards bringing about greater dynamics of economies, as well as stronger economic growth.

In contrast to the 1970s and 1980s, the general economic scenario in Europe at present is:

- 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), and as a consequence, 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 having unemployment figures greater than 10 per cent;

- 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.

The economic policy pursued in Europe is based on:

- close co-ordination of the economic policies of the Member States;

- realisation 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.

**CONVERGENCE CRITERIA**

As we will illustrate in later Sections, above all the convergence criteria, which are a condition for participation in the Economic and Monetary Union, 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% of 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;

- there must be exchange rate stability. In the last two years there should have been no devaluation, and interest rates must fit into the fluctuation margin of the European Monetary System (EMS).

At present, only Luxembourg meets all the criteria for convergence. Only Denmark, Spain, France, and Luxembourg meet the criterion of public finance in 1992 (De Kam et al., 1992). In this respect there are severe problems in Belgium, Greece and Italy. Most countries will have to make a renewed effort to reduce the government debt to meet this convergence criterion. Belgium, Denmark, France, Luxembourg and the Netherlands meet the convergence criteria in respect to inflation levels. Inflation levels are especially high in Greece and Portugal.

POSSIBLE IMPACTS OF THE ECONOMIC AND MONETARY 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 to be controlled 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.

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.

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 in 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 and 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 argued 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 would 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 (Lundqvist, 1992). 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. And 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 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. Consequently, all governments in the 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 Figure 1. These are discussed in the next few sections.

**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
Figure 1: European Union: Implications for Housing

- Factories
- Competition policy
- Economic growth
- Lower inflation
- Lower government spending
- Tax harmonisation
- Citizenship and social justice

- Markets
- Firms
- Political Union / Social Charter

- EFTA
- EC 12
- Central / Eastern Europe

- National housing policies and housing markets
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 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 ensure that EC citizens have 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; movements 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 northern Africa; as well as refugees.

**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).

Two directives already apply in regard to tendering practices (Priemus, 1991). The first, the liberalisation directive, lays down that member states are obliged to remove all barriers inhibiting the equal treatment of prospective contractors. This can stimulate takeovers and buying into companies in other EC countries. The second, the coordination directive, aims at harmonising 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 ECUs must be reported to the European Commission in Brussels. Details of these projects are entered into a data bank: the Tenders 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 fiori a single currency would encourage
cross-border activity and a more competitive market.

**ECONOMIC GROWTH**

If we were to divide the EC countries into two groups, the poorer countries and the wealthier ones, the position of the two groups would give the impression that a wealthier country's inhabitants spend a larger proportion of their incomes on housing than a poorer country's inhabitants. But when we look at only the "poorer" 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. 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 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.

As a result of the inelasticity of supply, 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 important 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.

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. 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, and problems of disrepair, an inadequate rate of replacement, and of affordability and indebtedness would assume greater importance.

**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 be more than 1.5 percentage points above 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 member states during the envisaged time period is open to 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 macroeconomic policy. This deflationary “consolidation doctrine” (Katseli, 1989) is prevalent among policy makers at national and supra-national levels, reflecting 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 bring 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 re-distributes 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 low inflation, the real costs of home ownership may rise. This will have important effects on tenure choice by households, and also on affordability.

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 Giniaris (1992) for the PA Consulting Group predicts major impacts in Britain:

"One 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 not 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, Barreil 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.

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 skepticism about whether it is likely that all member states will meet these targets in the proposed time scale.

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 (Papa, 1992). 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.

TAX HARMONISATION

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

Moves towards tax harmonisation will have broader effects too. In general, tax pressure rises with increasing wealth. 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 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 concentration, welfare systems will increase the propensity to move between countries.

**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 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; Ghekier, 1991; Fité, 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 oriented 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 (Ghekier, 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 policymakers 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 insti-
NOTE

This paper is based on Priemus, Hugo, Mark Kleinman, Duncan MacLennan and Bengt Turner (1993), "European monetary, economic and political union: consequences for national housing policies", Housing and Urban Policy Studies 6, Delft (Delft University Press) and on the paper "Maastricht Treaty: consequences for national housing policies", of the same authors, published in Housing Studies, Vol 9, No.2, April 1994, pp 163-182.

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