

Towards cost-effective housing policies

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Abstract

The goal of housing policy in European countries often is to ensure access to affordable and decent quality housing for all. But access to housing and housing affordability seem to worsen. Against the background of tightening government budgets the criterion of cost-effectiveness – the efficient use of scarce resources – seems to dominate discussions about the selection of housing instruments. How to evaluate the cost-effectiveness of housing policy instruments is the question we discuss in this paper. The aim is to elaborate a conceptual framework based on the combination of a public administration approach with a welfare economics approach. The paper acknowledges that it is impossible to fully disentangle ideology and technical choices of policy goals and instruments. However, the paper also demonstrates that it is possible to rationalise ideologies in the discussion on housing policy to a certain extent.

1. Introduction

Housing problems appear to be growing in many European countries either due to quality problems or due to housing shortages (Thorogood, 2012; Tosun, 2013; Eurostat, 2014). At the same time government budgets are getting tighter and this puts more pressure on the welfare systems to choose along the criterion of (cost-)effectiveness. Governments will desire to choose instruments based on their proven effectiveness under certain circumstances. Theoretical frameworks may provide motivations for choosing certain types of instruments in particular contexts. However, many times instrument choice is driven not only by explicit policy goals, but also by implicit policy goals. Policy goals can also be formulated in different ways and may be assigned different weights. These choices that define policy aims of a welfare state are what Barr (1998: 4) calls an “explicitly normative and largely ideological” answer to the question “What are the *aims* of policy?”.

In this paper¹ we aim to contribute to the discussion on housing policy goals and on a conceptual framework that can guide the selection of cost-effective policy instruments. This framework aims to clarify the relations between policy goals, policy instruments and policy outcomes, as well as the discussion concerning policy instruments between stakeholders involved in the process of policy preparation. The framework aims to help to formulate implicit goals in an explicit way and will help to sharpen the focus on the possible roles that governments can fulfil.

Based on this, a cost-effective housing policy is here defined as a policy that will result in maximum value for society within the context of scarce inputs and given explicitly defined policy objectives leading to transparent instrument choices.

Housing has been called the wobble pillar of the welfare state (Torgerson, 1987) implying that the right to adequate housing is part of the welfare state, but to a large extent it is provided by the

¹ The paper is the result of the first stage of a research conducted for the European Commission. At this point of the research process we draw the first conclusions from a literature review and an academic discussion that took place in Leuven 12-13 May 2015. We would like to thank the participants of the workshop for their input in the discussion. In a next step conclusions from empirical studies will be added, probably in the form of case reports.

market. Therefore, since housing is part of the welfare state but also part of the market, we explore a combination of a public administration approach – which assumes that the government is in control of the housing outcomes – with a welfare economics approach (where the government has a market intervention role to play) – which assumes that once the policy goals are set, instrument choices are technical. We recognise that aims of housing policy are often determined by other policy areas such as economic growth, pensions or labour market. Moreover, the key debates in housing policy such as on home ownership and social housing are highly ideological/political. This paper aims to discuss the way ideology and rational arguments are intertwined and aims to come up with a framework that can support policy decisions

2. Theoretical underpinning

Two approaches to policy making are combined in this paper as housing policy is influenced by government and market. The first approach is the public administration model. Variants of this model are used for example in Van Dooren, Bouckaert & Halligan (2015); Netherlands Institute for Social Research (2012); Heylen, Haffner & Winters (2010); Stephens et al. (2010); Winters, van Bortel, Van Dooren & Smets (2010); Bouckaert & Auwers (1999). This model represents the different steps of the public sector management cycle and shows the relations between policy goals, instruments and outcomes. It takes policy goals as given, once they are defined by politicians, stakeholders, firms, users. It allows for freedom of policy choice both in objectives and instruments, and offers the possibility to measure government performance in terms of efficiency (the relation between inputs and outputs) and cost-effectiveness (the relation between inputs and outcomes). It recognises also the importance of the context and the effect context can have on outcomes. This model assumes that government is in control of housing outcomes.

However, in practice, housing outcomes are for a large part influenced by the market and therefore differs from other fields of welfare provision such as education and health care (Haffner et al., 2012). The economics of the welfare state then offers a complementary approach. The welfare economics model (see Stiglitz, 1995; Barr, 1998) has been broadly applied to evaluate and analyse reform in some areas of the welfare state (see Le Grand et al., 1992). The model has as starting point that dominant policy aims in the western world are characterised by: “*efficiency* in the use of scarce resources; their distribution in accordance with *equity* or *justice* ...” (Barr, 1998: 4).

Central to a discussion of the welfare state therefore first are considerations of efficiency. Efficiency goals can be derived from assumptions about the market which do not hold: perfect competition, perfect information, no market failures and complete markets. Examples of efficiency problems in the housing market related to imperfect competition mostly originate from unequal power relations (monopoly power of landlords in the rental sector, discrimination, spells of seller or landlord power due to slow supply-side response). Efficiency problems related to imperfect information include problems in transparency of price and quality of the dwelling. Market failures include typically spatial externalities (for example when property deterioration affects neighbours and whole neighbourhoods). The relevant questions are concerned with whether the market can solve the problem, and if not whether the intervention that will improve efficiency would be cost effective (Barr, 1998: 83).

Second aim of the welfare state is the achievement of social justice and the associated role of government (Barr, 1998; chapter 3). There are three broad types of theory for which we also use the term ideologies: libertarian, liberal and collectivist (Elsinga et al., 2008). The so-called natural right libertarians interpret any government intervention as harming individual freedom. Government intervention, therefore must be minimized and be reserved for the protection of property rights.

The liberals accept a larger role for the government in the strive for maximum welfare. Liberals regard the protection of property rights as means to an aim and consider optimal welfare as central goal. Rawls according to Barr is a liberal which implies that the principles of justice for Rawls would be followed rationally and would aim for maximization of liberty for everyone. Three principles are relevant: liberty principle (maximize liberty without intruding on similar rights of others); difference principle (rearrange social and economic inequalities so that they are both a) to the greatest benefits of the least advantaged and b) attached to offices and positions open to all under conditions of fair equality of opportunity (Rawls, 1972: 83 according to Barr, 1998, 51); priority principle (first has priority above second).

The collectivist theories have as core value equality. They however differ about whether this can be achieved in a market context. The democratic socialists argue that within an institutional context the market can be used to achieve social goals. Like the liberals they support the idea that the aims can be achieved in such a mixed economy of government and market. The Marxists disagree and argue that private ownership and the market system in capitalism cannot be combined with the aim of equality.

In a first-best economy Pareto efficiency (a situation where no individual can be made better off without making anyone else worse off) can be achieved in combination with any perception of social justice (Barr, 1998: 77). However, the weight that is attached to efficiency will vary according to ideology, if the efficiency aims do not align with equity aims. The second-best optimum will not be Pareto efficient. Once the social justice aims have been set in relation to its trade-offs with economic efficiency, the choice of instrument must be regarded more of technical issue, as the instrument that achieves a policy aim best, should be chosen (Barr, 1998: 98).

However, welfare economics is not free of critics. One of the main problems in this approach is that policy goals are based on rather technical concepts (efficiency / equity), while policy goals in practice mainly find their origin in more fundamental aspects (as e.g. in basic rights or economic growth, see next section). Important is also to realise that markets will never achieve equilibrium and that equity and efficiency cannot be separated (Stiglitz, 2001).

The combination of both models starts out from the objectives that are assumed to contribute to social welfare and that are partly determined by ideology (and influenced by stakeholders) when social justice is concerned and partly by market efficiency concerns. Identifying objectives of housing policy is therefore the starting point of the combined model. It is the topic of the next section.

3. Identifying housing policy objectives

Exploring housing policy documents in different countries shows a large similarity what concerns housing policy goals. Accessibility, affordability and quality are often mentioned policy goals finding their basis in a basic human rights approach:

“The right to housing is one of the most basic human rights ensuring human dignity. Access to housing is also a precondition for the exercise of many other fundamental rights.” (FEANTSA²).

Many European countries included the right to housing in their constitution. A fourth housing policy objective, not always available, is housing security. Also adequacy can be mentioned as a fifth. Adequacy includes that the housing situation is unfit to the occupiers' age, disabilities or household composition, living in extreme overcrowding, but it may also include situations of illegal living (such as caravans on illegal campsites; see ETHOS typology on housing and housing exclusion³). Where housing security and adequacy are not explicitly mentioned, they could be considered as long-term

² FEANTSA: <http://www.feantsa.org/spip.php?rubrique25&lang=en> (d.d.15/06/2015).

³ FEANTSA: <http://www.feantsa.org/spip.php?article120&lang=en> (d.d.15/06/2015).

access and being an aspect of housing quality respectively. Housing quality can be explicitly complemented with neighbourhood quality.

Access

Access to housing appears not to be equally straightforward for all. Households with certain characteristics may encounter severe difficulties in finding a house for example due to discrimination, due to their income situation or other characteristics which make it hard to enforce their desire to access the housing market. In many European countries discrimination towards certain type of rental home seekers exists, as proves the huge literature on the topic (for example Ahmed & Hammarstedt, 2008, for Sweden; Bosch, Carnero, & Farré, 2010, for Spain; Baldini & Federici, 2011, for Italy; Drydakis, 2011, for Greece; Bengtsson, Iverman, & Tyrefors, 2012, for Stockholm; Van der Bracht & Van de Putte, 2013, and Heylen & Van den Broeck, 2014, for Belgium). Most of the discrimination literature investigates ethnic discrimination but other groups can also be subject to discriminatory behaviour on the housing market, based on sexual orientation, gender, family composition, handicap, or source of income. Households with low-incomes may face problems in finding a decent house due to either the source of their income on which they can be discriminated or simply because of the level of their income which does not allow them to convert their need into effective demand for decent housing. This goes together with an increasing demand for social housing and social housing waiting lists that are increasing rapidly in many member states (Thorogood, 2012).

As an extreme form of housing deprivation homelessness is an increasing problem in many European countries. It covers a range of housing problems from not having access to housing at all (rough sleeping) to living in an inadequate or insecure housing situation (ETHOS definition).

In general housing supply does not seem to be able to keep up with increasing housing demand (Tosun, 2013) leading to housing shortages. And even in those few countries where there is no housing shortage in general, there appear to be problems in the provision of good-quality and affordable housing.

Affordability

With respect to affordability, there were 11 percent of the EU28 population lived in households spending more than 40 percent of their disposable income on housing (Eurostat, 2014). Moreover, affordability seems to be worsening (Eurostat, 2014). Especially tenants renting at market prices seem to be faced with higher cost overburden rates (except for Denmark and Sweden).

Quality

With respect to decent quality, one dimension is the availability of sufficient space. 17 percent of individuals in the EU28 were living in overcrowded houses and this overcrowding rate is higher for those at risk of poverty. Another dimension of decent quality is measured by housing deficiencies in the area of basic sanitary facilities or the general condition of the house. In 2012, 20 percent of the individuals in EU28 were declared deprived on housing (suffering from one to four of the dwelling problems identified). People at-risk-of-poverty suffered relatively more from this problem (Eurostat, 2014).

Housing quality does not only entail the quality of the dwelling itself but also the quality of the neighbourhood. According to the EU28 population there are quite some neighbourhood problems such as noise from neighbours or the street, neighbourhoods affected by pollution or other

environmental problems, problems of crime and vandalism, and low access to basic services. Increasing housing polarisation is also observed (Eurostat, 2014).

So if any of the housing access, affordability, and/or quality goals is violated, a conclusion which should ideally be based on empirical evidence of the needs in society, a justification for government intervention can be found.

Non-housing objectives of housing policy?

One of the problems that arise in discussions between stakeholders or political opponents is that (formal) housing policy objectives are interwoven with other objectives that are not made explicit. In many countries housing policy is not only meant to serve housing policy goals but serves (often implicitly) also goals in other fields, such as:

- Pensions, old age poverty (and wealth accumulation via home ownership)
- Labour market (mobility, productivity)
- Economic growth (how to maximise) (often linked with labour market)
- Social policy (inequality, vertical equity, social inclusion)
- Quality of life (health, welfare, well-being)
- Environmental quality, sustainability, urban renewal

The housing objectives of housing policy find their rationalisation in the basic human rights or the constitution, but how can these non-housing objectives of housing policy be rationalised?

Pensions and old age poverty through home-ownership promotion?

Housing policy is often organised along a housing tenure divide. In many countries there is a housing policy that supports home ownership. This appears to be a political majority that owning is superior to renting which leads to a relatively higher weight attached to subsidising owner-occupation than renting. The rationale behind the promotion of home-ownership builds on the positive individual, social and macro-economic effects associated with it (overviews in Elsinga & Hoekstra, 2004; Haffner, Winters & Van den Broeck, 2014). One of the effects at individual level is its potential to offer protection against poverty in old age due to reduced housing expenditure when the mortgage is finished and to accommodate health and care expenditures in old age. And at macro-economic level it is supposed to relieve governments from the investments in pensions. In this view housing policy can contribute to a sustainable pension policy and reduce the burden for public pensions (Groves et al., 2007; Toussaint, 2011). However, housing also is a risk in itself. Hence the use of housing as a pension should be treated with care (Doling & Elsinga, 2013). Increasing pressure to rebalance subsidies away from home ownership exists (see e.g. EC policy analysis and guidance in the In Depth Reviews and Country Specific Recommendations carried out in the framework of the European Semester and the Macroeconomic Imbalances Procedure). The effects of home ownership and advantages in particular for lower income groups are often debated in the literature.

Labour market effects

Housing quality is positively connected with health and hence the labour market through increased labour productivity. The origin of social housing often lies in the desire to improve health of the labourers and with that their productivity.

There exists a relationship between housing tenures and labour market effects (e.g. unemployment duration, mobility) has been investigated for many countries but the conclusion is not unambiguous (called the Oswald-puzzle, Coulson & Fisher (2009)). The main assumption is that home ownership hinders labour market mobility. Empirical evidence provides a mixed picture, both home ownership

and social rental dwellings provided at below market prices, hinder mobility in the labour market (Van Ewijk & Van Leuvensteijn, 2009).

Housing policies may not only indirectly through its mobility or productivity effects have an effect on the labour market but they may also directly aim to improve employment (in a certain sector). For example, when Europe allowed VAT-exceptions where e.g. VAT could be reduced in labour-intensive sectors to fight high unemployment during the end of the nineties (Commissie van de Europese Gemeenschappen, 1997), this became standard policy (OECD, 2008) for example in Belgium, through its reduced VAT-tax on renovation activities (from 21 to 6%). Not only offering stimuli to improve the quality of housing, the aim was to enhance activity and employment in the construction sector.

Economic growth

Through its effects at macro-level (pensions, labour market), housing policy can affect economic growth. Also negative growth effects may exist e.g. through superior treatment of home ownership which may disproportionately end up with the middle- or high-income households (see distributional effects of mortgage interest tax relief, e.g. Heylen, 2014). Superior treatment of owners may lead to (increased) wealth inequalities (MacLennan & Gibb, 1993). These wealth inequalities may have detrimental effects on macro-economic growth (OECD, 2015). But also, by investing in owner-occupation, investible resources have been driven to owner occupation (which involves relatively more often second-hand rather than new construction) away from more productive forms of investment (MacLennan & Gibb, 1993).

Social policy and quality of life

Good housing conditions do not only affect people's health⁴ but also childhood development (Balestra & Sultan, 2013). Also recognised are the effects of housing policies on poverty and ultimately on welfare or well-being. Under the objectives of fighting poverty and social inclusion (Europe 2020) the collection "material deprivation" in the Europe 2020 covers indicators relating to economic strain, durables, housing and environment of the dwelling. Housing rents and prices have a direct and major impact on disposable income; so price and availability of housing shape the well-being of different socio-economic groups, e.g. the elderly, the homeless (MacLennan & Gibb, 1993). Not only the cost, but also the quality of housing is also considered a determinant of living standards and well-being (Eurostat, 2014; Balestra & Sultan, 2013). In Fujiwara & HACT (2013) for example, the link between some specified housing quality indicators (e.g. damp, poor lighting, condensation, rot) and happiness is shown.

Environmental effects

As a last example, environmental quality and sustainability can be pursued via housing policies. Since households are important energy users, their energy use (and cost) can be steered through the characteristics of their dwelling (e.g. through improved insulation, passive or zero-energy house construction, the use of sustainable energy, etc, ...). Therefore, sustainable energy-use promoting measures are often implemented via policies in the housing domain such as green loans (loans at

⁴ World Health Organisation (<http://www.who.int/hia/housing/en/>): Examples of key housing-related health risks include: respiratory and cardiovascular diseases from indoor air pollution; illness and deaths from temperature extremes; communicable diseases spread because of poor living conditions, and risks of home injuries. Inadequate ventilation is also associated with a higher risk of airborne infectious disease transmission, including tuberculosis, as well as the accumulation of indoor pollutants and dampness, which are factors in the development of allergies and asthma. (d.d.16/06/2015)

reduced interest to be used for energy-saving investments), tax reductions for energy-saving investments or direct subsidies to support the user with the cost of the (energy-saving) investment.

Referring to both theoretical models again, this means that housing policy objectives are much broader than only to correct for housing market inefficiencies or achieve housing equity as suggested by welfare economics. Other objectives lying within or even beyond the housing domain may play a role as well but are seldom explicitly mentioned in policy discussion. This puts the welfare economics model in a broader context.

Relative importance of objectives

Moreover, as policy objectives are often multi-dimensional, a weighting of objectives might be necessary in order to be able to make a choice on the (set of) policy instruments. The weight attached to each of these policy goals can differ according to the position one takes. At cross-country level, it may for example be linked to the type of welfare regime (see Esping-Andersen for a typology of welfare regimes, 1990). Where it concerns differences between persons or stakeholders, it can also depend on knowledge and information concerning the needs in society and be based on (personal) analysis of the situation. But also the time dimension of policy objectives plays a role. Policy-makers may not always attach equal weights to objectives which require public expenditure with effects beyond their government term.

The theoretical framework makes clear that an objective appraisal of possible alternative policy instruments has a strong need for clear identification of policy objectives. The effect of setting clear policy objectives against which the outcomes of policy instruments are appraised, has been shown explicitly by two papers on whether supply or demand side subsidies were the superior policy instruments (Galster, 1997; Yates & Whitehead, 1998). The result appears to depend strongly on the policy objectives the instruments are measured against.

Since the potential/expected (cost-)effectiveness of an instrument is dependent on the (relative importance of the) objectives, it is impossible to provide a framework that offers a direct answer to the question of which instrument(s) to choose. But in any case, the design of a cost-effective housing policy system needs to start with a clear identification of objectives and the weights attached to each in order to be able to choose instruments based on a cost-effectiveness appraisal.

4. Policy instruments

Once the motivation for policy intervention and the housing policy objectives are identified, the discussion of which instruments to use can follow. There is a myriad of instruments available which can be divided in financial policies, regulatory policies and communicative policies (for example in Baarsma & Janssen, 2007; de Bruijn & ten Heuvelhof, 1991). The three types of instruments tend to come with different costs both financially and concerning their market disturbing impact. Usually the communicative instruments are the least costly, followed by the regulatory ones. Financial instruments tend to have the largest cost implications. According to Barr, the choice of instruments is a mere technical issue: "While the choice of the aims (for example defining what is a socially just outcome and how much weight do efficiency and equity aims receive) is an ideological one, the choice of the methods will be a technical one" (Barr, 1993). But can the choice of instruments be made technical in practice? Below we discuss the different types of instruments and the choices that need to be made, and where "ideology" enters the discussion.

Instruments and principal questions

The financial instruments include explicit or implicit public expenditure (direct subsidies and fiscal subsidies respectively). The use of demand-side subsidies, where the user of housing services is supported, versus supply-side subsidies, where the supplier of housing services is supported⁵ in order to stimulate supply (quantity and quality) and/or to reduce prices, is one of the most discussed questions in this area.

Also the conditions attached to receiving the subsidy are an issue, both where it concerns demand- and supply-side subsidies. Dependent on the degree to which the government on the one hand wants the demand-side subsidy to be spent on housing and on the other to respect consumer preferences (not necessarily the same as the government preferences), the subsidy can be tied to a specific type of expenditure (in casu housing) or can be an untied income transfer. To supply-side subsidies as well, conditions can be attached. Besides quantity, quality and price conditions, conditions apply to those households that will be accommodated (e.g. low income households). Even though conditions need not be attached to supply-side subsidies, they typically are. Hence supply-side subsidies are often associated with social housing.

Furthermore, there is the issue of targeting. A universal subsidy may be considered, in which case all consumers are eligible. But a universal subsidy is usually very costly. Unlike with universal subsidies, targeted subsidies will only be provided to a limited group of beneficiaries on the basis of verifiable characteristics such as income, old age, youth, disability (Currie & Gahvari, 2007).

Another type of instruments include the regulatory measures. These can regulate access to and the quality of housing, parts of the housing market actors and actions (such as the surveyors, insurers, but also rents) or the use of land⁶.

Lastly, communicative instruments are intended to increase the knowledge of the consumers or to influence their preferences (Baarsma & Janssen, 2007). They can include for example sensitisation campaigns, the development of instruments that increase the transparency of the market, formation, training, or the guidance of vulnerable groups. This can also include the non-housing services offered by social housing actors.

With respect to social housing ownership, also there arise some principal questions. Ownership of social housing (Scanlon et al., 2014) is typically public (municipalities or companies owned by municipalities) or (private) non-profit (housing associations). Private providers of social housing usually have a not-for-profit purpose but can include for-profit (or limited-profit) providers. Provision under the form of cooperations also exists (for example in Denmark, Vestergaard & Scanlon, 2014). Germany is an exception in the ownership characteristics of social housing in that it is mostly provided by private landlords. Alternatively, private owners can decide to rent out their property at reasonable prices via a social rental agency which may offer some guarantees to the private owners in return (for example in Belgium, see De Decker & FEANTSA Housing Working Group, 2012; De Decker, 2002). But also other, more innovative ownership forms may exist or explored (see Kraatz et al., 2015).

Welfare economics theory provides some technical links between policy objectives and instrument choices. For example with respect to the decision on targeting or not, welfare economics theory

⁵ Other terminology for demand-side versus supply-side subsidies can be used, namely subject- versus object-based or tenant- versus project-based subsidies.

⁶ Land use regulations affect the effective supply and the cost of land and hence the housing supply (supply elasticities and cost of housing).

leads to the following: if a demand-side subsidy should be used for efficiency reasons (e.g. problem of market failure caused by the existence of externalities such as the effect that structurally unsafe houses have on the neighbours), a universal subsidy may be considered (all inhabitants of structurally unsafe houses are eligible). To address equity problems (e.g. an unfair housing outcome due to vertical equity problems linked to an unequal income distribution), subsidies should be targeted (to the low-income households).

Or generally, based on welfare economics argumentations (Barr, 1993), efficiency can be enhanced by regulation (for example assuring minimum quality standards), limited subsidies for specific reasons (such as spells of seller or landlord power due to sudden supply shortages), and by public provision of loan finance or loan guarantees (for example when there is discrimination in the capital markets due to imperfect competition resulting in unequal power relationships). Equity problems can theoretically best be addressed by income transfers (targeted, see above). Hence, except for a short-term situation, prices (supply-side) should theoretically not be subsidised. However, in practice these links between objectives and instruments are not so straightforward and welfare economics falls short where it concerns the effect of the context.

Context

Ideally, the choice of instruments should be as technical as possible so that once the objectives are clear, the instruments roll out. As such instrument choices would not be so contested and would gain the widest political and social support. However, due to the amount of considerations that need to be made, this is not such an easy exercise. One of the difficulties not mentioned so far is that outcomes of policy instruments will strongly depend on the context. Examples of context variables that might play a role in the (cost-)effectiveness and hence the choice of a certain instrument can be:

- 1) the welfare regime (Matznetter & Mundt, 2012) and history (Malpass, 2000, 2005): the design of a system does not take place in a “new country” setting. To the contrary, for most countries, the housing policy will be reformed rather than designed from the start. This has consequences for the social support and the effect of the introduction or removal of instruments. Path dependence may limit the government’s possibilities in choosing alternative policies (see discussion on path dependence: Malpass, 2011);
- 2) the potential of the social and private rental sector: both the magnitude and the quality of the existing capital base are relevant. It determines the absorption power of the social and private sector, especially in the short run;
- 3) the type of private sector: whether the private sector consists of residential landlords with one or a couple of houses to rent or of mostly institutional providers, has a large effect on how informed the providers are, e.g. about regulations, or what is occurring in the housing market in general and how fast they will or can react for example to stimuli to increase the quantity and/or quality of private rental houses;
- 4) short- and long-term supply elasticities: the supply elasticity of housing has many consequences when introducing demand stimulating instruments, for example on who will benefit most of the instrument (tenant or landlord; house buyer or house seller). The supply elasticity of land has consequences e.g. when introducing supply-side stimuli;
- 5) economic and labour market situation;
- 6) other elements to consider: e.g. the budgetary conditions, the institutional frameworks and conditions, information available and usable for targeting, demographic/migration predictions and other social developments, credit market mechanisms, quality and age of existing housing stock.

Preferences and ideology

Each of the instrument options has its advantages and disadvantages. Hence, similar to the definition of policy goals, it seems not possible to restrict the choice of instruments to a technical discussion. In

practice, similarly to policy objective choice, instrument choice seems also to be driven by political preferences, finding again their origin in ideology.

One of the main points here is who will benefit from the government intervention both in the short and in the long run (and the difference between the intended and effective incidence of the subsidy). With respect to the intended incidence, the issue of targeting is relevant, and is often a highly ideological choice. Targeting is associated with a liberal view and universal subsidies with a social democratic ideal aiming at broad support for welfare provision. Effective incidence might differ from intended incidence. Will it be consumers or producers? For example, even though a demand-side subsidy seems to be targeted at consumers, in a situation of inelastic supply (see issues of context above), it will mostly be the landlords who benefit effectively through increased rents. Moreover, these increased prices will also affect the unsubsidised households and may cause new affordability problems. And what is the distributional impact of a subsidy? For example, addressing the (marginal) buyers via mortgage tax relief, again in a situation of inelastic supply, this will benefit mostly the sellers rather than the buyers through an increase in prices (Vastmans, Heylen & Goeyvaerts, 2014).

Due to the fact that housing is not only a consumption good but also an investment good with a large effect on household wealth, promoting ownership (including both owner-occupiers or landlords) includes wealth accumulation. MacLennan & Gibb (1993), in their analysis of the UK housing system at that time, indicated that for example, the UK government failed to make this distinction for example by facilitating low-income consumption of rental housing but middle-income purchase of assets (through mortgage interest tax relief). By supporting ownership in the middle of the income distribution and supporting renting at the low end of the distribution, wealth is accumulated in the middle and can create increasing wealth differences. Therefore housing should be examined not only in terms of its consumption aspects but also in terms of its investment potential. In general the issue of tenure neutrality is a choice to make and has an effect on the choice of instruments. The superior treatment of owners might be a government objective but may be considered unfair if these different dimensions are taken into account. It is also linked to ideology, differences for example in the importance attached to capital formation (where collectivist countries for example plea for equal income and wealth distributions).

Another issue is the importance attached to consumer choice and consumer preferences versus government preferences. For example, in deciding between a supply-side or a demand-side subsidy, the importance of consumer preferences plays a role as consumer choice is usually more restricted where it concerns supply-side subsidies to certain types of housing in certain areas. But also in deciding between a demand-side subsidy tied to housing and an untied demand-side subsidy the issue of consumer choice plays a role. Supplementing the income of those in need of housing without tying the subsidy to housing fully respects consumer choice and preferences and allows the market to play its allocating role efficiently. However, the extent to which this additional income effectively increases housing demand depends on the income elasticity of housing demand which is determined by individual choice and preferences for housing relative to preferences for other goods (Oxley, 2004). With in-kind subsidies or tied cash subsidies, the government can be certain of, that this additional income will be spent on housing. Fallis (1990) put this as differences in the objectives of the government. If the government's objective is to raise utility of the citizens, economic analysis concludes that it is better to provide cash than in-kind benefits. However, if the government's objective is to raise housing consumption things might be different. Here again, the importance attached to consumer choice results from the ideology adhered to. More libertarian societies will more fully respect consumer preferences.

Preferences concerning policy instruments will depend on the position one is in, on the interests one is defending. Such differences in preferences, be it political or based on interest, mostly are not made explicit. They play a role in the background of decision making, but are seldom explicitly mentioned.

Evaluation and decision

For making good decisions one needs an approach that allows to evaluate the social impacts and effectiveness of policies given different government objectives and different contexts. Several methods have proven their usefulness for example performance measurement, social cost-benefit analysis, social return on investment analysis, and more recently the well-being valuation analysis. But also other methods and tools are available (see Kraatz et al., 2015 for an overview).

In the public administration model, the choice of instruments can be based on evaluations of policy (programmes). Two terms in policy evaluations are often used interchangeably but do refer to different processes in the public administration model, namely performance management and performance measurement (Freyer, Antony & Ogden, 2009). Freyer et al. (2009) describe performance measurement as being about the past (ex-post), while performance management is about the future (ex-ante), involving actions based on information from performance measurement results. With respect to ex-ante evaluations (Heylen, Haffner & Winters, 2010), the evaluators will have to use expected outcomes and expected/budgeted inputs (social cost-benefit analysis/cost-effectiveness analysis). Evaluation criteria used in models based on the public administration model include relevance (link between needs and policy objectives), efficiency (link between inputs and outputs), effectiveness (links between outcomes and objectives) and cost-effectiveness (links between outcomes and inputs).

In a social cost-benefit analysis (CBA) or a social return on investment analysis (SROI) of government interventions the evaluators aim to present the net social welfare effects of the implementation of (a package of) instruments. This includes an assessment of costs and benefits in terms of social welfare (e.g. effects on social inclusion or neighbourhood quality improvements). A difficulty is that the valuation of benefits, or in other words an increase in societal well-being, needs to be monetised in order to be able to compare costs and benefits. The effects may also lie in the distant future. The final choice should be restricted options that result in a net social welfare increase. Even though the final choice may still be a political choice or based on ideology, at least the choice has become a transparent one.

However, both CBA and SROI approaches can only be used when outcomes or welfare or well-being related and cannot be applied to the assessment of rights-based policy evaluation methods such as providing housing of minimum quality standards irrespective of the effect on the inhabitants' well-being (Fujiwara and HACT, 2013). The well-being valuation analysis approach has been used instead by for example Fujiwara and HACT (2013).

Even though there are welfare or non-welfare value measurement techniques available (see for example Fujiwara & HACT, 2013; Knapp, 2015), the availability of data is crucial. To be able to make quantitative policy evaluations, countries need to invest in data collection and registration systems (cfr. EUROSTAT data collection and registration system for outcome measurement: quality of life statistics, housing statistics, ...)⁷.

So even though the choice of instruments cannot be made a merely technical one, it can become a more rational and evidence-based one. Given that all policy objectives are made explicit, and based on an analysis of needs in society, and their weights attached, given the government and consumer preferences and their weight, given an analysis of the context and an (ex-ante) evaluation of the potential short-term and long-term effects of instruments (looking at the relationship between

⁷ EUROSTAT's series: 'Statistics explained' builds on its collection of outcome data.

expected outcomes and policy objectives), both in and beyond the domain of housing, a rational choice of instruments can be made in order for them to offer more value for money.

5. Conclusion

In this paper we defined a cost-effective housing policy as a policy that results in maximum value within the context of scarce inputs and given defined policy objectives. We used a combination of the welfare economics model and the public administration model. The added value of a combination of both models lies in combining the advantages of both: where the public administration model allows for more flexibility in defining the government objectives (which can even be defined differently depending on ideology of the position one takes), the welfare economics influence makes the choice of both policy objectives and policy instruments more rational.

Throughout the paper it became clear that the question how to design cost-effective housing policies cannot be answered easily and straightforward. Politicians and stakeholders can have different and even contradictory visions on policy objectives or their importance or on the fairness of an outcome. There exist not only explicit but also implicit objectives, both inside and outside the housing domain. Outcomes of policy instruments can be very different in different contexts. The resulting value for society may also need to be measured or quantified differently according to the objective: increasing welfare or non-welfare, the latter of which is typical of a rights-based policy. A housing policy is also a mix of policy instruments. Picking one instrument out of the toolbox will have impact on the outcome of other instruments so they need to be evaluated as a set.

In such a situation it seems quite impossible to define criteria for a cost-effective housing policy. Nevertheless, based on what precedes we can define some principles that can guide the choice and make it more rational in order to enhance the discussion during policy preparation and for the government to receive wider support once the decisions have been taken.

With that goal, housing policy objectives should be clearly defined (and not limited to mere housing objectives, but also including other objectives) and their relative importance should be made explicit. The choice and relative importance of the objectives should be based on empirical evidence concerning the needs in society. Also the choice of policy instruments should be justified and taken on the basis of: the specific context, the ideology adhered to (and how this influences the preference for certain instruments), ex ante evaluations of expected impacts and ex post the (value of) outcomes should be measured. Then, even though the choice of policy instruments has not become a mere technical choice, objectives and instruments will be linked in a more transparent and more broadly supportable way.

In a next step of this research project we will test these principles on a specific case and draw lessons from that for a next version.

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