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# HOUSING REGIMES 20 YEARS AFTER KEMENY

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Working Paper

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## I. INTRODUCTION

It is now more than 20 years since Jim Kemeny's (1995) book *From Public Housing to the Social Market* was published. In it Kemeny advanced a theory of rental systems, although in practice it is a theory of entire housing systems (and is presented as such in a later work). It has been enormously influential in comparative housing studies, serving as an explanatory theory in its own right, as a means of country selection in comparative studies, and as the independent variable in some studies that seek to compare the performance of different housing systems.

Now seems an appropriate time to critique of Kemeny's theory because much has changed in housing systems and the wider social and economic structures within which they are located since the book was published (and even since Kemeny, et al (2005) provided a more recent review of three countries). If scholars characterise countries' on the basis of a deficient or outdated typology then it will have become a form of "mindless classification" that Kemeny (2001: 61) warned against.

This working paper is the first stage of the exercise. The second section attempts to provide an overview of Kemeny's theory by integrating and interpreting his relevant publications from the 1995 book (which is treated as capturing previous relevant work). The paper is deliberately "light" on literature that employs Kemeny's typology. When a work is used as much as Kemeny's over a protracted period, authors begin to rely on other authors' interpretations and there is a tendency to drift away from the original. In this paper, I have therefore tried to rely on the original and have not drawn on the large literature that makes use of Kemeny's work in some way. However, the third section summarises and comments on two recent works (by Christian Lennartz and Anita Blessing) because they provide direct assessments of the continued relevance of Kemeny's typology. The fourth section provides overviews of the housing systems in Sweden, Germany and the UK, including a short overview of changing social and economic contexts and changes to the housing systems since 1995. A brief assessment of whether these housing systems can still be characterised as being "unitary" or "dualist" is provided in the concluding section.

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## II. INTERPRETING KEMENY

Understanding the whole of Kemeny's typology of rental markets requires reference to a series of publications, published over a period of about a decade. Although Kemeny's (1995) book is most commonly referenced in relation to it, the typology was further developed in a number of articles published in the years up to 2006. The typology was extended by Kemeny, et al (2005) to differentiate between unitary and integrated rental markets. Meanwhile the underlying theoretical relationship between housing and welfare regimes was discussed in Kemeny (2001), but developed into a coherent whole in Kemeny (2006). It was only in this last article that Kemeny provided a classification of "housing [as opposed to rental] regimes".

### How do we locate the theory?

The background to Kemeny's theory lies in his earlier work in which he criticised prevailing approaches to housing research as being uninformed by theory and consequently as overly descriptive (Atkinson and Jacobs, 2016). However, as he outlined in another paper co-authored with Stuart Lowe (Kemeny and Lowe, 1998), he also rejects "universalistic" approaches that emphasise economic structure ("*structural determinism*", 1995:38) as providing the explanation for the development of housing systems. This is common among Marxist approaches, including Harloe (1995), but also in studies that follow the logic of neo-liberalism to predict the convergence of housing systems towards becoming marketised and with a residualised public/ social sector. Instead he adopts what in sociology is known as a "theory of a middle range" (this is made explicit in Kemeny and Lowe, 1998). This approach embraces "policy constructivism" which emphasises "*the importance of long-term policy in interaction with economic processes within rental housing stocks for the structuring of tenures.*" (emphasis added) (1995: 39) His scheme is therefore a divergence model. Housing systems are therefore "*a strategic policy creation: a social construction*" (2006: 15). He characterises this approach as being both culturally sensitive and historically grounded (Kemeny and Lowe, 1998).

### Causes of housing regimes

Kemeny identifies three causes of housing regimes: the balance of power between capital and labour, its mediation through social and political structures, and what can be thought of as an underlying ideology.

He does not adopt "labour movement theory" (equivalent to Esping-Andersen's (1990) "working class mobilisation theory") which suggests that the welfare state is "the outcome of the relative strength of the labour movement and its political ability to implement collective welfare provision through electoral control of the state." (1995: 64). Rather, he prefers the "theory" of corporatism. However, he sees this as

compatible (or at least that there is no “irreconcilable contradiction” 1995: 65) between corporatist theory and labour movement theory.

The relationship between housing and broader welfare regimes is developed in Kemeny (2001) and Kemeny (2006). In Kemeny (2001) he argues that housing represents a fourth pillar of the welfare state (the others being social security, education and health). Indeed, after Esping-Andersen’s identification of “pension regimes” and “labour market regimes”, he suggests that housing is one of several “sector regimes”. He provides an interpretation of Esping-Andersen in which

*“... different regimes derive from different power structures and constellations of class-derived power relationships. The three regimes are social democratic, corporatist and liberal. These, in turn, generate welfare systems that can be called decommodified, conservative and residual, receptively.”* (2001: 58-59).

In this distinction between regime and system, the regime is the independent variable and the system the dependent variable. He further argues that Esping-Andersen’s “social democratic” regime is in fact part of the family of corporatist welfare regimes.

In his schema, the relative strength of labour is mediated through the formal corporatist structures, i.e. a “system of co-operation and compromise between capital and labour that is orchestrated by the state.” (1995: 65). He draws particular attention to adversarial legal systems and (two-party) electoral systems in Anglophone societies, in contrast to inquisitorial legal systems and multi-party electoral politics that typically deliver coalition governments in parts of Europe and Scandinavia. He implies that the separation of the political and work-place wings of labour movements in Anglophone societies<sup>1</sup> leads to their political wing seeking solutions to social problems through state institutions, so giving rise to a “profound statism” (1995: 67). Differences in the balance of power between different interest groups located in the different “sectors” of the welfare state mean that “large differences can arise between welfare sectors in the power balance between diverse interests.” (Kemeny, 2006: 9)

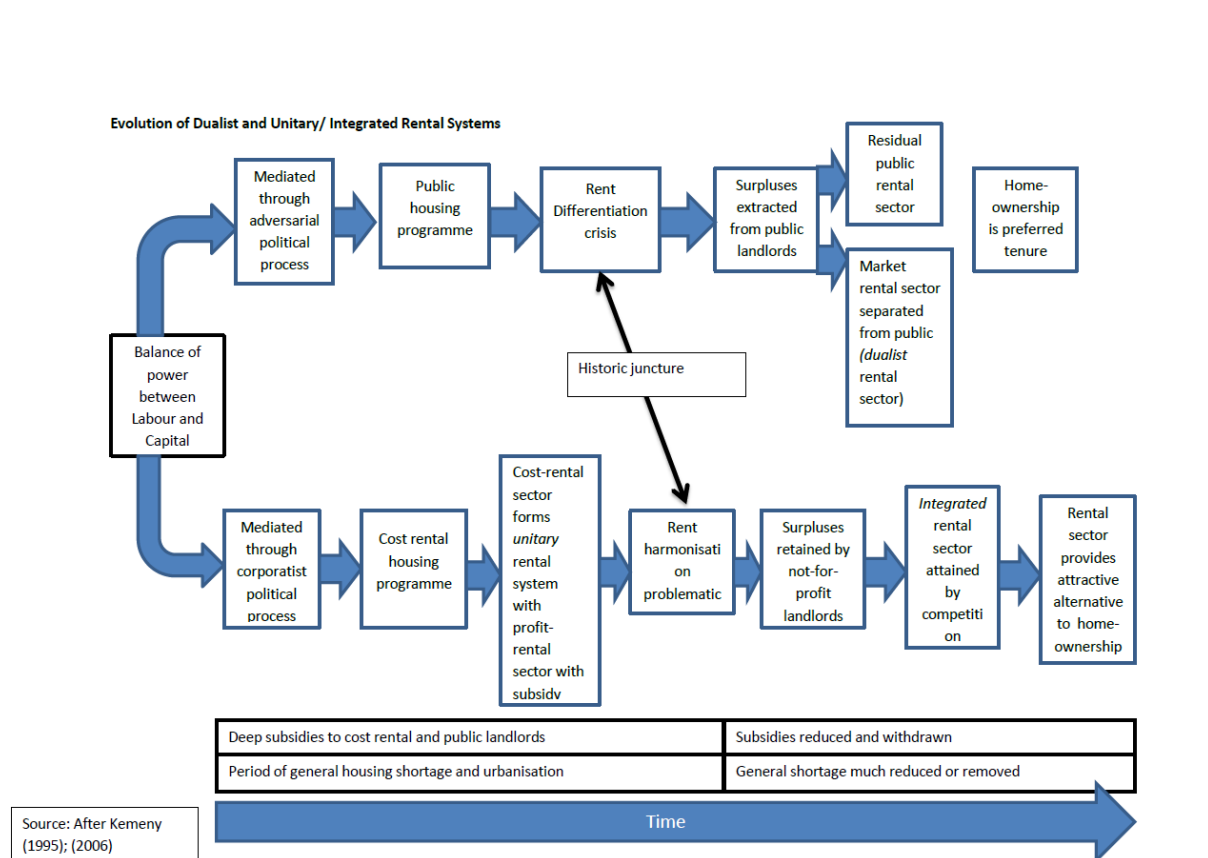
Finally, the corporatist countries are informed by an underlying theory of ordo-liberalism that gives rise to a preference for a social market in housing. The theory of “ordo-liberalism” provides an alternative to the “profound statism” preferred by labour politicians in Anglophone countries. The theory was developed by the Ordo-Kreis (“order group”) as a third way between free-market capitalism and communism in 1930s Germany. It gives rise to “social market economy” (a term better known than “ordo-liberal” outside Germany) which “attempts to construct markets in such a way as to strike a balance between economic and social priorities and thereby ameliorate the undesirable effects of the market from within” (1995: 11). Kemeny charts the well-documented roles of Ludwig Erhard as Minister of Economic Affairs and Chancellor (providing economic leadership), and Muller-Armack as under-secretary

of state in the late 1950s and early 1960s who “became the political mediator for the implementation of ordo-liberalism during the early critical years of German’s reconstruction.... [when] the foundations were laid for the post-war German economic and social order.” (1995: 14) He claims that the concept spread to neighbouring small countries such as the Netherlands, Denmark, Sweden and Austria.

### The construction of rental markets

Kemeny’s typology of rental markets is illustrated in Figure 1, which illustrates how two kinds of rental systems emerge. The typology is grounded in the “fairly unique” (Kemeny, 1995: 163) circumstance of the post-war period when many countries faced acute housing shortages, and sometimes experienced additional housing pressures from urbanisation. These circumstances lead to the adoption of some form of government-subsidised housing programme. However, the size and nature of that programme depended on the balance of power between capital and labour, and whether this is mediated through adversarial Anglophone or Germanic corporatist political structures. Over time, these respond in different ways to the “maturation” of the public/ cost rental sector, which tends towards surplus as the housing shortage declines and housing debts are repaid.

**Figure 1. Evolution of Dualist and Unitary/ Integrated rental systems**



## **What is a dualist rental strategy?**

In Anglo-American “*dualist*” systems, the profit-driven market creates acute social problems that result in demands for a public sector safety net, the size of which depends on the balance of power between competing interests. In any case it is kept separate from the market in order to shelter the market sector from the cost sector, so creating a “*curious dualism*” (Kemeny, 1995: 9) between them. Nonetheless, as the state sector matures its rents fall relative to market rents, which results in a “rent differentiation crisis”. Presented with this historic juncture, the government will tighten control over the cost rental sector, force rents to rise, preventing (re)investment and reversing the maturation process by allowing tenants to purchase properties at discount. The result is that the cost rental sector becomes residualised as access is restricted to the poor and supply is limited. He characterises its management as being akin to a socialist “command” economy as government leaves public/ social landlords with little discretion, and pricing (rents) are insensitive to market conditions. (“The public housing sector has all the signs associated with planned economy in communist countries... creating a poor law sector.” 2006:3.) Housing allowances may be necessitated by high rents in the public sector, which may be paid for by other public sector tenants who are not claimants. With access to public housing restricted, and the profit rental sector being unattractive due to high rents and lack of security, demand shifts towards owner-occupation that has to be subsidised in order to sustain marginal owners. This, he claims, leads to the housing market becoming unstable.

He cites “Britain” (particularly England), Ireland, USA, Canada, Australia and New Zealand as examples of the dualist model, to which he adds Finland and Iceland from the Nordic bloc, although the Nordic countries are not examined in any detail. In his 2001 article, he rather casually adds “most Mediterranean countries” to the group (Kemeny, 2001: 6).

## **What is a unitary rental market?**

In the Germanic unitary systems, a different strategy is adopted. In the early years of a subsidised housing programme, an “integrated” or “unitary” rental market is achieved through a mixture of subsidies provided to cost-rental landlords, and the regulation of rents in the for-profit rental sector. In his 1995 book, Kemeny uses the terms “integrated” and “unitary” synonymously. However, in an article he describes as being “a first attempt to go beyond the typology outlined in Kemeny (1995)” (Kemeny, et al, 2005: 856), he distinguishes between the two. In this early phase, the cost or non-profit sector requires subsidy and the profit sector to be regulated, in order for the former to be able to compete with the latter. This describes the (2005) refinement of what is meant by a “unitary” rental market.

As the cost rental sector matures a *“harmonisation problematic”* (parallel to the “rent differentiation” crisis in dualist systems) emerges when cost rental sector is able to exert sufficient downward pressure on private rents and the government needs to decide when to abolish rent control. At this point it becomes an *“integrated”* rental market, although some important “state interventions may remain” (Kemeny, et al, 2005: 859). For example, second generation rent regulation may replace first generation rent control. The conditions that are required for such competition are, in addition to competitive rents, a high degree of security of tenure and sufficient *“market coverage”* (Kemeny, et al, 2005: 859). The nature of an integrated or unitary rental system differs from dualist rental markets in important ways. Such a system can be characterised as being a “social market” with “demand sensitive” rents based on rents pooled across the stock of non-profit housing rather than historic costs of individual buildings or estates, and non-profit housing is open to a wide range of households .

As a consequence the rental market (as a whole) *“will be highly competitive with owner occupation and will retain a large proportion of households, including better off households.”* (Kemeny 1995: 38-39). It is the knock-on effects of the different kinds of rental systems on home-ownership that imply that the theory is one that seeks to explain the tenure structure of the entire housing system, and not merely the rental sectors.

In his (1995) book he identifies Sweden, the Netherlands, Germany, Switzerland, Austria and Denmark as countries that are *“moving towards”* unitary rental markets.

### Varieties of unitary markets

In his 1995 book Kemeny suggests that there are degrees of unitary market, namely a *“unitary cost rental market”* and a *“unitary part-profit rental market”* (1995: 57). A unitary profit rental market is unlikely to be feasible because there would be a demand to create a cheap rental housing for the poor. In the long-run cost renting *“is likely to eliminate or at least severely restrict profit renting”* (1995: 56-57). These distinctions are developed in a paper published in 2005 in which he distinguishes between non-profit rental sectors that “influence, lead and dominate the market” (2005: 855), using the examples of Switzerland (“weakly-influencing”), Sweden (“strongly influencing”) and the Netherlands (“dominating”) to illustrate these subdivisions.

The degree of influence by the non-profit sector over the rental market is linked to the wider welfare system in another paper published in 2006, but which confusingly does not adopt the distinction between integrated and unitary markets developed in the paper published in the previous year.<sup>ii</sup> Kemeny sees Esping-Andersen’s distinction between social-democratic and corporatist welfare state regimes as arising from his use of labour market theory, in which regimes are the product of class struggle. He maintains that Esping-Anderen’s social democratic welfare regime

type is “a variant of corporatism” (2006: 15) In Andersen’s view, corporatist regimes are merely the product of stalemate in this conflict. He notes that scholars of corporatism rank both the Nordic and Germanic countries as being corporatist, and suggests that these provide a better over-lap with his unitary/ dualist typology – Norway being the outstanding outlier (Kemeny, 2006).

**Table 1. Regime types, Systems of power and housing regimes**

<b>Regime type (Esping-Andersen)</b>	<b>A Right-Left scale of regimes types</b>	<b>Housing regime</b>
Liberal	Right-wing hegemonic or coalition	Dualist rental system (Canada, Australia, NZ, England)
	(1) Capital-led corporatist or weak right-wing hegemonic coalition	Non-profit influenced integrated rental market (Germany, Switzerland)
Corporatist	(2) Power balance corporatism or stalemate/ non-hegemonic	Non-profit led integrated rental market (Sweden, Denmark, Austria?, Netherlands)
	(3) Labour-led corporatism or weak left-wing hegemonic coalition	Non-profit dominated integrated rental market
Social Democratic	Left-wing hegemonic coalition <sup>a</sup>	n.a.

- a. “It is important to note that, as a welfare regime type, the Social Democratic welfare regime is indistinguishable from a labour-led corporatist regime. Left-wing hegemonic coalitions are rather a theoretical category which is included for the sake of comprehensiveness. They are most similar to the former East bloc countries.”

Source: Kemeny 2006, Tables 2 and 4 and text

By sub-dividing the corporatist countries between those where it is “labour-led” and those where it is “capital led” we may have an explanation for the different emphases on state and market providers of cost rental housing within the unitary regimes, and the relative size of the non-profit sector. Thus he is able to link capital-led corporatism with the smaller cost rental sector in Germany which can only have a “limited impact on the rental market” (2006: 13); and what he calls “power-balance corporatism” and the rental market that is “led” by the non-profit sector in Sweden and Denmark (where the balance of power between labour and capital interest and the relative sizes of the non-profit and profit rental sectors are roughly equal). However, he is puzzled by the dominance of the non-profit sector in the Netherlands, since the country does not conform to the notion of “labour-led” corporatism – rather it remains in the “power-balance” category. The associations he identifies between



forms of corporatism and rental systems are described as being “*hypotheses*”. The “*non-profit influenced*”, “*non-profit led*” and “*non-profit dominated*” rental markets are characterised as being “*housing regimes*” (2006: 12).

The balance between labour and capital may vary between sectors of the welfare regime. So labour may be stronger through unions in the labour market, tenants in the housing market and pensioners’ associations. “To what extent different sectors are labour-led can vary, regardless of the extent to which the welfare system as a whole is labour-led” (2006: 9).

### III. TWO CRITIQUES

There have been two attempts to critique Kemeny in recent years. Lennartz (2011) centres his critique around privatization, which he interprets as being “an equivalent to the retrenchment of the state in other social policy fields”, and “strongly reflect[s] the causes for the formation of a certain rental housing system... a proxy for the existing power relations in emerging rental systems” (2011: 349). Lennartz argues that Kemeny underestimates the power of capital-orientated groups in Germany which have gained strength since the 1970s, leading to the abolition of special tax treatment for non-profit landlords, reductions in the size of the social rented sector, withdrawal of the Federal Government from housing policy and the actual sale of some municipal housing to investors in some municipalities. All of this amounts to “an unparalleled orientation towards market principles in Germany’s rental sector.” (351).

In Sweden Lennartz identifies reductions in subsidy for municipal housing companies, privatization of some MHC properties and the liberalisation of rents on new private rented properties as examples of “privatization”, but notes that the scale is relatively small and suggests that the powerful position of the tenants’ union and to a lesser extent the MHCs themselves have moderated change.

In the Netherlands he identifies the “grossing and balancing” exercise of the mid 1990s (which ended most government subsidy, but freed the housing associations of debt) and the reduction in direct state involvement as signs of change. He notes the lack of corporatist structures in Dutch housing, but concedes that the housing association sector continues to dominate the rental market “more than ever” (354).

His conclusion is that there is more variety among the “integrated” housing systems than Kemeny allows (Lennartz admits that he “neglects the differences between ‘unitary’ and ‘integrated’ systems” (357)), and it is artificial to try to bring housing typologies in line with those pertaining to the wider welfare state. Indeed he describes this as being an “obsession” and uses Bengtsson’s (2001) observation that housing interventions are different from others because they are state correctives to the market to suggest that “it seems very problematic to deduce whole welfare state typologies solely from observations in housing systems.” (356) He does not attempt to propose a new kind of typology, and indeed retains Kemeny’s

classification of Sweden as having a “non-profit-led/ dominated” rental market, the Netherlands as being “non-profit dominated”, but suggests that Germany has become “almost solely profit-oriented.” His critique is not generalizable to other countries, and he does not consider the role of owner-occupation, which he concedes “[a]rguably... weakens the validity of my claims on the housing/welfare state relation.”

Blessing (2016) scrutinises developments in three “dual” (after Kemeny) or “residual” (after Harloe) rental markets. She notes that public housing in the US has continued to shrink through demolition and now represents only 1 per cent of the housing stock, and has become even more residualised through draconian policies such as the exclusion of anyone with a criminal conviction. However, she argues that this is counterbalanced by the growth of privately-provided subsidised housing through the use of Low Income Housing Tax Credits (LIHTC). Whilst these deploy highly marketised methods and provide private housing it is at below market rents it has *higher* income limits than public housing and helps to avoid the concentration of low income households that is a feature of much public housing. Blessing identifies a similar process in Australia with the National Rental Affordability Scheme (NRAS) which began in 2008 and has similarities to LIHTC, since it too seeks to provide tax incentives to lever in private investment to provide subsidised housing for people on income typically higher than those in traditional social rented housing. (Income limits are set at around average household income.) However, the scheme failed to attract large-scale institutional investment and much of the finance that was raised (often from individual investors) has gone to not-for-profit providers, in contrast to the US, and the (Australian) scheme was suspended in 2014. Meanwhile the public/ social sector has become more residualised as nearly all states have introduced fixed-term tenancies on the ground that renewal should occur only if need continues. She notes that as social housing becomes more scarce “those in the highest need groups... may be left unassisted” (161).

Blessing reports a more confused picture from England after 2010. She suggests that the shift from traditional social rented housing to “Affordable Rents” (set at up to 80% of market rents) when combined with a cap on Housing Benefit (the UK’s housing allowance) has displaced low-income households from high-demand (i.e. expensive) areas, and that “only working tenants can afford them.” (166). (In fact, there are very high levels of Housing benefit dependence in Affordable Rent housing.) However, she questions the viability of the scheme in part due to the financial risks that housing associations bear. The paper was clearly written before the majority Conservative government was elected in 2015 and has shifted subsidies away from all forms of rental housing in order to boost owner-occupation.

Blessing concludes that the “binary divide” (167) between cost-rental and for-profit housing is being broken down within “liberal” welfare states, by leveraging in private finance and subsidising private providers. The apparent broadening of target group does not represent a shift towards “unitary” rental regimes, as they are too small in

scale and are ideologically incompatible with them. She attributes it to declining housing market affordability that affects middle-income groups within a context of widening inequality and economic instability. Nonetheless she suggests that “Kemeny’s ‘dualist’ and Harloe’s ‘residual’ models immortalised policy configuration that have since provided unsustainable.” (168). Moreover, the increased targeting, conditionality and decreased security within the remaining “social” sector provides a variation within “dualist”/ “residual” regimes that has been characterised as moving from a “safety net” to more transitional support (or “ambulance service” as noted by Fitzpatrick and Pawson, 2014, after Stephens, 2008). Although she does not present a new conceptual model for rental regimes, she suggests that the new models of provision “may obscure a new selectivity in provision that mirrors Wacquant’s ‘Centaur-state’, which rewards the economically established and further punishes the economically excluded.” (168).

#### **IV. INDIVIDUAL COUNTRY SUMMARIES**

##### **GERMANY**

###### **Context**

According to Kemeny, Germany is the home of the ordo-liberal philosophy that gave rise to social market institutions, including unitary housing markets. Ordo-liberalism may be distinguished from neo-liberalism. The latter “is naturally against all forms of state interference in markets. Its attitude is essentially laissez faire... In contrast ordo-liberalism sees a vital role for the state in ensuring that markets stay close to some notion of an ideal market.” (Wren-Lewis, 2014).

Ordo-liberalism was particularly strong within the Christian and Free Democrat parties. Together with the CSU these parties dominated the Governments of the FRG from its formation until the mid-1960s and so oversaw the establishment of the key institutions. This included Germany’s macroeconomic policy which was based on the pursuit of low inflation attained through an independent central bank (Guerot and Dullien, 2012). The commitment to ordo-liberalism also helps to explain the design of the Euro, which like the Deutschmark is based on the over-riding importance of low inflation, and a rejection of Keynesian counter-cyclical fiscal policy.

The German social security system was founded on Bismarckian principles of social insurance, and supported a “male breadwinner” labour market model. These came under pressure in the 1990s, when some cuts to social security were made as a result of the extreme budgetary pressures of unification rather than ideology (Classen, 1997).

However, the poor performance of the German labour market in the 1990s led the Social Democrat-led Government to introduce far-reaching reforms to both social security and the labour market. The “Hartz IV” reforms in particular have been characterised as “neoliberal” in character (Guerot and Dullien, 2012), and follow the

logic of the OECD's (1994) *Jobs Study* that advocated labour market flexibility as a means of increasing employment.

The performance of the German economy has improved since the late 1990s, and it escaped the worst effect the Global Financial Crisis. It has been relieved of the burden of providing the anchor currency in the Exchange Rate Mechanism that preceded the Euro. Both male and (in particular) female employment rates have grown, so that Germany no longer resembles a "male breadwinner" model. However, there has been a growth in part-time employment including "mini-jobs" and the growth in productivity has arisen from a downward pressure on wages reflected in a lower share of output. According to Lapavitsas et al (2012), "The euro is a 'beggar-thy-neighbour' policy for Germany, on condition that it beggars its own workers first." (quoted by Bieler, 2013). The general poverty rate has risen by more than one-half since 2000 whilst in-work poverty has more than doubled since 2005. The introduction of a minimum wage in 2015 reflected the growth in low-paid employment that had previously been avoided by centrally negotiated wage agreements.

### **The German housing system**

Germany built up a substantial social rented sector in the decades following the war. About one-quarter of all post-war housing was "social" housing by 1970 (Droste and Knorr-Siedow, 2014). In contrast to many other countries a range of landlords, including for-profit private landlords, was eligible for subsidy. Subsidy was intended to reduce rents to below "cost" levels in order to allow them to compete with the lower end of the private rental stock, although rents on older stock would be lower. For a "lock-in" period of on average 30 years, rents would be limited and eligibility restricted to lower income groups. Thereafter, the housing leaves the social rented sector and can be let or sold on the open market. The subsidy design means that as shortages were removed and the subsidy programme scaled back, the social stock "melted away" with a net loss of perhaps 80,000 units per year over the past two decades (ibid.). It is now probably under five per cent of all stock, but as Droste and Knorr-Siedow (2014) note, the "de jure" social rented housing is bolstered by "de facto" social housing particularly in the form of former "de facto" social housing that is nonetheless in the ownership of organisations with a social purpose, such as municipal housing companies.

The non-social private rented sector was subject to rent controls until the early 1960s, from which point they were phased out in different localities as shortages diminished (McCrone and Stephens, 1995). Nonetheless, in the early 1970s the sector was subjected to "second generation" rent control, relating rent increases to rents for similar properties in the market and limiting rent rises to 30 per cent over three years, as well as security of tenure (ibid). Landlords were compensated by generous tax treatment, including an accelerated depreciation allowance (replaced with a linear version in 2005) and the ability of offset losses from landlord activities against other income ("negative gearing") (Gibb, et al, 2013).

In his book, Kemeny argued:

“The finesse of the system is that cost rental housing comprises a substantial pool of low-rent housing to dampen rents in general, and that this stock of housing automatically renews itself as older, low debt housing – both ‘private’ and ‘public’ – passes out of subsidy and therefore out of rent regulation while new build, high debt subsidised housing is added to ‘top-up’ this part of the stock (1995: 121-122).”

He characterised the rental market as being “unitary” in nature and as “part-profit”; and later (2006) as a market “influenced” by the non-profit sector.

In the mid-1990s, it seems that the German market did conform reasonably well with Kemeny’s typology. The cost/ non-profit rental sector required subsidy to compete with the for-profit non-subsidised sector, but as the sector matured the subsidies could be reduced. When the cost/ non-profit rental sector was heavily indebted, the for-profit non-subsidised rental sector was subjected to rent control which was replaced with demand-sensitive rent regulation when shortages were removed. The rental sectors housed a wide range of households, and crucially provided an attractive alternative to home-ownership, to the extent that it was only one of two European countries where the rental sector was larger than the ownership sector. He admitted that the fall in subsidised new-build might lessen the rent-dampening effect, but maintained that this might well reverse demand for such housing rose in response to rising rents.

[When did the “rent harmonisation problematic” occur?]

### **After Kemeny**

Twenty years on, and the picture has changed somewhat.

First, the upswing in new subsidised housing has not occurred. Indeed in 2006 housing was devolved to the regional governments and federal subsidies will be phased out by 2019, representing “the final stages of relinquishing responsibility for social housing (Droste and Knorr-Siedow, 2014: 198).”

Second, whilst some regional governments continue to subsidise new housing, this is increasingly for home-ownership and it is not financed from the recycling of surpluses as Kemeny’s theory suggests. On the contrary, since the 1990s, there has been an extensive sales programme by public sector employer and municipal housing company landlords. More than 1.5 million units of housing were sold in the period up to 2006 (Elsinga, et al, 2014). Notable disposals included the Dresden’s entire housing stock, more than 150,000 units in Berlin, as well as those owned by the post office, state railway and Krupp. Municipalities in the former DDR were in any case obliged to sell 15 per cent of their public housing. These privatisations were part of a wider programme of asset sales prompted by public sector deficits, although it appears to have been infused with a neo-liberal rejection of the state in

the market, so was attributable to “both political and ideological pressures (Elsinga, et al, 2014: 403).” The new landlords (often international financial investors) have often segmented the stock by renovating and selling the most attractive properties. Tenants’ Charters have provided limited protection. The strategy appears to have drawn to a close, as municipalities have been hit by higher housing allowance and social assistance costs as rents have risen, and in Munich some housing was bought back (ibid.). However, the loss of municipally-owned stock to the profit sector is generally permanent.

Third, acute shortages have re-emerged in some markets leading to provision for the regulation of rents on new contracts. The new law, which was rolled out in Berlin in 2015, is intended to link rents on new contracts to the pool of existing rents on similar properties. Rents on new contracts may not exceed this threshold by more than 10 per cent. The regulation broadly falls within the principle of market-conforming, at least if the shortages that are driving rent rises are met and the measure is temporary.

Fourth, Germany has now followed the route of other countries in increasing its reliance on demand-side subsidies to secure housing for low income households. Eligibility for the traditionally mainstream *Wohngeld* has been limited by withdrawing it from recipients of social assistance benefits, meaning that most of its one million recipients are pensioners. However, some four million households receive assistance with rent and heating through social assistance, which can meet the cost of the entire rent. These subsidies cost some €15 billion in 2009 (Droste and Knorr-Siedow, 2014). The upswing in poverty is likely to increase pressure on these subsidies.

Thus Germany’s unitary rental market is in retreat. The ability of non-profit/ cost rental housing to influence the market has diminished greatly and will continue to decline. The supply of new “social” housing does not keep up with the loss of stock, and surpluses have in many cases been extracted through privatisation. Moreover, the remaining stock of (formerly) “first tier” social housing is increasingly targeted on those people who are threatened with homelessness (Droste and Knorr-Siedow, 2014).

Ironically, although the rental *sector* has become more segmented, in a wider housing market sense, a unitary housing *system* remains. Germany is one of a few western countries to have resisted the rise of owner-occupation, in particular that financed through mortgages. Just over one-quarter (26.6%) of individuals live in households in mortgaged ownership, whilst a similar proportion of individuals (25.8%) are outright owners (EU-SILC). Germany’s fragmented rental sector does appear to have retained the ability to compete with home-ownership.

## SWEDEN

### Context

The Swedish social and economic model arose from the forty year period of Social Democratic hegemony that ended in 1976. In the 1930s, the Social Democrats were able to widen the party's base "from a party of class struggle... to a national party, capable of presenting itself as the bearer of a truly national project [known as *folkhemmet* – the people's home]" (Rojas, 2005: 21)<sup>iii</sup>. The party built corporatist structures centred on the 1938 Saltsjöbaden Agreement between the trade unions (LO) and employers' federation (SAF). What became known as the Rehn-Meidner model (named after two LO economists) used centralised wage bargaining to constrain wage growth in the context of full employment and reduce pay differentials ("equal work for equal pay"). This allowed successful companies (which remained in the private sector) to reinvest profits for future expansion. Those workers made unemployed in uncompetitive industries were provided with high levels of social protection and retraining, although the state became an increasingly important employer as collective consumption expanded with the welfare state, and government employment in the 1960s (Iversen, 1998). The model began to fail from the late 1960s, as the principle underpinning wage settlements shifted from "equal work for equal pay" to "equal pay for all" and the LO launched a controversial campaign for "wage-earner funds" that would be built up to take-over profitable industries, which were introduced in a diluted form (Vartiainen, 1998).

Employers responded by disengaging from the centralised wage bargaining system, which oversaw a wage explosion in the mid-1970s and substantial "wage drift". The centralised wage bargaining system was dismantled in the 1990s. Meanwhile, the model had come to rely on high tax rates and high levels of public spending. By 1993, the public sector accounted for 43 per cent of employment and public expenditure reached 73 per cent of GDP (Rojas, 2005). Macroeconomic policy was based on a soft currency with periodic devaluations aimed at restoring competitiveness.

The Swedish model reached a critical juncture in the early 1990s with the economic and banking crisis. Of symbolic as well as material importance was the end to full-employment as unemployment rose to 12.6 per cent in 1994 (Rojas, 2005). Although the centre-right government in the early 1990s made budget cuts, it was the subsequent Göran Persson's Social Democratic administration (1996- 2006) that introduced a series of reforms. These included allowing a role for the private sector in the provision of education and privatisation of utilities, transport and postal services. Although Swedes voted against joining the Euro, the central bank (Riksbank) was granted independence in 1999 and charged with pursuing a policy of inflation-targeting. In the post-crisis era it has been pursuing an aggressively loose monetary policy involving negative interest rates and a programme of quantitative easing, with a consequent upward pressure on property prices.

The Swedish labour market now sustains high levels of male and female employment, both in excess of the OECD average, and there has not been the growth in part-time employment seen in Germany. However, Sweden's status as having the lowest level of poverty in Europe is now over. In the mid-1990s (1997) only eight per cent of Swedes lived in poverty. This rose slightly to 9.5 per cent in 2005, and to 15.1 per cent in 2014 (EU-SILC) – bringing it close to German and UK levels. In-work poverty has risen from 5.5 per cent to 8.6 per cent 2005-15 (EU-SILC).

### **The Swedish housing system**

Swedish housing policy is underpinned by cross-party agreement that the country should avoid creating a “social” model of housing, involving the targeting of social housing on low-income households (Lind, 2014). The idea of tenure neutrality informed the creation of the Swedish model in the 1940s when cross-tenure subsidies were introduced and rent control introduced. Cross-tenure subsidies underpinned the Million Homes programme of ca. 1965-74 at the end of which the Government explicitly confirmed its commitment to equal standards and costs across the tenures (Christophers, 2013).

The non-profit sector, represented by Municipal Housing Companies (MHCs, which are owned by, but managed independently of, local authorities), reached parity with the for-profit sector by the mid-1960s (Kemeny, 1995), a situation that has more or less been maintained since then (Lind, 2014). Since 1968, rent setting in MHC and private rental sectors has been based on “use values” which implied a high degree of rent pooling, although in reality the extent to which this happens varies between municipalities. (The tenants' union is resistant to above-cost rents being charged on older properties.) An explicitly corporatist mechanism applies to rent setting, which is determined by annual local negotiations between the tenants' union (SUT) and the MHC, and since 2011 the private landlords too. Rent setting in the MHC was therefore used as the basis of rent setting in the for-profit sector – so by regulation “lead” rent setting in the rental market as a whole. The need for regulated rents is obvious given the great expansion of the MHC sector, whilst for-profit landlords retained a much higher share of older city centre stock. However, the end of the Million Homes programme allowed the MHC sector to mature.

In his 1995 book, by which time housing subsidies were being phased out in response to the economic crisis, and some municipalities were beginning to sell stock, Kemeny remained of the view that there had been no fundamental shift away from the commitment to cost-renting. He reviewed the situation in Sweden in his 2005 article in which he maintained that

“... progress towards an integrated market that will enable non-profit companies to compete with profit landlords without regulatory restrictions has



been considerable in the last three ‘consolidation decades.’ (Kemeny, 2005: 866).”

However, he did acknowledge a number of “retrograde threats”, which included the sale of MHC properties and that lack of new build investment (attributable in part to the hostility to cross-subsidising new build from older properties). Nonetheless, he concluded that “...progress from [a] unitary to integrated [market] is at best crab-like (or perhaps more like two steps forward and one step back). (ibid.: 867).”

### **After Kemeny**

Since 2005, the trend has been strongly against the maintenance of a functional unitary rental market.

Some developments were foreseen by Kemeny (1995), such as the change to rent setting. Since 2011, rent setting in the for-profit sector has been relaxed somewhat as rents must now be based on those in similar apartments in both sectors, rather than within five per cent of MHC rents (Christophers, 2013). This is suggestive of a weakening of the regulatory influence of the MHCs over the for-profit sector rents. Moreover, sales of MHC properties have substantially reduced the stock in Stockholm (Lind, 2014), suggesting an extraction of surpluses contrary to the principles of a unitary market. This suggests a weakening of the ability of the non-profit sector to “lead” the for-profit sector by competition has weakened in such markets.

However, two factors have caused what formally remains a unitary rental market to cease to function as such.

First, the failure of new housebuilding to keep up with demand in the three largest cities has caused the dynamics of the rental market to change.

Acute shortages of non-profit rental housing have led to long queues for access, especially for housing in the more popular areas. The allocation by waiting time always tended to favour better off households, and in any case MHCs have operated qualification requirements such as minimum income requirements, no outstanding rent arrears and references that have tended to exclude the poorest and most vulnerable households, or at least direct them towards the less popular stock (Fitzpatrick and Stephens, 2007). This is manifested in the concentration of households from immigrant backgrounds (i.e. people either born abroad or both of whose parents were born abroad) being concentrated in the less attractive suburban estates.

The shortage has combined with an EU ruling in 2011 that found that the MHCs enjoyed a competitive advantage over the for-profit sector (due to loan guarantees). The choice was between the MHCs adopting a “social” model and target poorer households, or to behave like normal businesses. The Government and MHCs favoured the second option, and MHCs are now expected to operate in a more

“business-like” way, whilst not subjecting access to a maximum income (Elsinga and Lind, 2013). This decision might be interpreted as the “critical juncture” at which the decisive decision was made to retain “housing for all.” However, MHC housing is not “for all” and the decision is likely to lead to a further weakening of their links with social service departments which are increasingly having to secure housing for excluded households themselves (Lind, 2014) – a separate rental market for a (small) section of the population.

The shortage of both MHC and for-profit rental housing further disrupts the “unitary” market. The “unitary” market may still function for “insiders”, but a different dynamic applies to “outsiders” for whom access is restricted. People with contracts are reluctant to surrender them and instead if they wish to move trade their tenancies, or sublet the property (legally or illegally) (Lind, 2014). Access is therefore more dependent on a secondary rental market composed of series of second-hand contracts or sub-lets, and predictably there is a black market, too (Christophers, 2013).

The second phenomenon has been the rise of owner-occupation. A crucial element in Kemeny’s theory is that in unitary rental markets, the rental sector is able to compete against owner-occupation. Owner-occupation in Sweden had been restricted to family houses, until 1968 when the status of owner-co-operatives changed. Previously, they could be sold only at use value, but thereafter they could be traded at exchange value. Being both freely tradable and capable of providing the security required for a mortgage, the change effectively extended owner-occupation into the apartment sector. Swedish owner-occupation became more subject to financialisation with the deregulation of financial markets in the 1980s, facilitating a boom-bust cycle, and contributing to the banking and economic crisis of the 1990s. By 2006, 68.8 per cent of Swedes lived in households that owned their properties, rising to 69.2 per cent in 2014 (EU-SILC). Property taxation now favours ownership over renting, too (Christophers, 2013). There was also a marked shift towards mortgaged ownership: it rose from 53.4 per cent to 61.3 per cent over the same period (ibid.). The mortgage debt: GDP ratio rose from 57 per cent in 1997 to 82 per cent in 2010. Combined with strong real price growth, Sweden now has a “liquid” owner-occupied sector that is qualitatively different from the rest of the housing system.

Lind comments that “Young households with reasonable incomes are... often ‘forced’ into the ownership market, especially if they want to live in more attractive areas where waiting times are longer (2014: 996).” This is an important dynamic that Kemeny attributes to the dualist rental market systems.

Whilst the formal structures of the Swedish housing model have been largely maintained, the unitary rental market has collapsed from within, undermined by shortages, the rise of ownership, and the weakening of the architecture of relative equality that was provided in the social-democratic social and economic model.

## THE UNITED KINGDOM

### Context

The UK's social and economic system has experienced two broad phases in the post-war period. The 30 years up to the mid-1970s, are often referred to as the era of the "social democratic consensus" in which both main political parties supported a Keynesian macro-economic policy and supported the institutions of the welfare state that were introduced by the 1945-51 Labour Government. This was a period of steady economic growth and falling income inequality. The labour market was relatively unregulated, with workers' rights protected by collective bargaining undertaken by trade unions and employers, without resort to corporatist structures. The post-war social security system was founded on a system of social insurance, but in contrast to much of continental Europe and Scandinavia, benefits were flat-rate, giving rise to what Esping-Andersen called "flat-rate universalism" (1990: 25).<sup>iv</sup> However, in response to the "rediscovery of poverty" from early 1960s (Gazeley, 2003), a series of means-tested social assistance benefits were introduced. The relative decline in economic performance in the 1970s, combined with government attempts to contain wage inflation through statutory prices and incomes policies, contributed to industrial conflict which exploded spectacularly in the "winter of discontent" in 1978/79.

The election of the Thatcher government in 1979 led to an abrupt break with the social democratic consensus. An economic policy of "monetarism" was intended to control inflation, but the policy of high interest rates led to an overvalued currency, rapid deindustrialisation and a large growth in unemployment. The economy restructured with a growth of services. The labour market became more feminised, particularly in part-time jobs, and eventually polarised into "work rich" dual earner households, and "work poor" no earner households. Poverty and income inequality rose rapidly after bottoming out in the mid-1970s. The social security was reformed, and became more dependent on social assistance benefits. The Labour Governments of 1997-2010 attempted to tackle poverty through means-tested tax credits for working households, and a much more generous social assistance system for pensioners, which successfully lowered the pensioner rate of poverty below the average for the first time. The austerity programme pursued by Conservative/ led governments since 2010 have focussed on reducing the deficit after the Global Financial Crisis, and have greatly increased conditionality among the growing spectrum of claimants who are expected to work, resulting in a much greater use of sanctions and a huge growth in the use of food banks. Benefits have also been cut for people with disabilities, but pensioners have largely been protected. Due to the suppression of median incomes, poverty has declined slightly since 2008, but there are growing indications of destitution (Fitzpatrick, et al, 2016).

## **The UK housing system<sup>v</sup>**

The post-war housing policy in the UK focussed on public rental housing owned and managed by local authorities, which already been established as significant providers in the inter-war period. From the 1950s subsidy was shifted to focus on replacing sub-standard slum housing, which marked a shift away from the “universal” model promoted in the early post-war period. The standard of council housing also declined from the very high standards set in the 1940s, and additional subsidies were provided to encourage local authorities to build high-rise. So, although a broad spectrum of the population lived in council housing, by the 1960s many aspirational families were increasingly opting for home-ownership. Meanwhile the private rented sector was mostly subject to security of tenure and rent control (an experiment in deregulating new tenancies in the late 1950s/ early 1960s failed), and by the 1970s was a residual tenure characterised by housing a mixture of older households, and younger mobile people.

By the time the Thatcher revolution arrived, the rental sector was already “dualist” in nature, although one can hardly say that the purpose was to “protect” the declining private sector! More importantly, the aspiration for home ownership was strong and the combination of the subsidised sales policy (Right to Buy) introduced for council tenants in 1980, and the deregulation of the mortgage market in the early 1980s leading to a vastly increased availability of mortgage finance, set the course of housing system change for the next 25 years. Home-ownership grew (until 2006), private renting continued to decline (until the 1990s), and council housing declined, due to sales and much reduced subsidies for building. From 1989 (in England) surpluses in local authorities’ housing revenue accounts were systematically extracted by Government, encouraging a wave of “stock transfers” to housing associations, which were also chosen by the government to be the main providers of new social housing. The social rented sector became increasingly “residualised”, for a variety of reasons, but including the effect better off tenants buying their properties, and local authorities increasingly targeting allocations on people who were in greatest housing need, including the (unintentionally) “statutory homeless” whom they had a duty to rehouse from 1977, giving rise to the sector acting as a secure and long-term “safety net” for a broad range of poorer households (Stephens, et al, 2003). As rents rose in the social rented sector, tenants became increasingly reliant on housing allowances.

## **After Kemeny**

The housing system began to change with the revival of the private rented sector, after new tenancies were freed from rent control and fixed term tenancies were introduced in 1989. As house prices rose after the mid-1990s, more people became priced out of home-ownership. Whilst the “headline” rate of home ownership did not

begin to fall until 2006, the falls among younger households were deeper seated and more dramatic. The nature of private renting changed and now houses a broader section of the population, including families with children.

The social rented sector began to change with the election of the Conservative-led coalition in 2010 and the Conservative majority government elected in 2015. Initially, subsidies were shifted away from providing new social rented housing and low cost-home ownership to affordable housing with rents set up to 80% of the market (in England). Whilst Blessing (2016) characterised this change as evidence that the “social” rented sector was being replaced with another form of subsidised housing, in fact the trend is towards a more residualised model of social renting. A “reinvigorated” Right to Buy programme (with larger maximum discounts) and a new policy of “pay to stay” to make higher income tenants pay market rents are intended to encourage sales to better off tenants. The Government is also running a pilot to introduce Right to Buy into the housing association sector, paid for by sales of higher value local authority tenancies. Meanwhile fixed term tenancies are being introduced, based on the supposition that social rented housing should not provide housing for life – in other words it is moving away from the safety net model, to the “ambulance service” model seen in the USA and Australia. Further, subsidies have now been shifted away from rental altogether, and are being targeted on subsidising “starter homes” to try to revive the home-ownership sector. Cuts to housing allowance in both the private rented and social sectors, and the imposition of an overall benefit cap, are also removing an essential part of the “safety net” model, which had previously largely protected post-rent incomes from falling below social assistance levels.

The key divide in UK housing has for decades been between home-ownership and social renting. The competition between cost and private renting was never really an issue. The drive has been to make social renting still more residual, whilst attempting to revive home-ownership. Indeed the government has introduced measures to tilt the housing market in favour of home purchasers to the disadvantage of landlords. In all senses the private rented sector is not seen as a legitimate competitor to home-ownership.

Finally, it should be noted that there is growing divergence between policies in different parts of the UK. In Scotland, Wales and Northern Ireland, the traditional model of social rented housing has been retained, right to buy has been abolished in Scotland, and Wales and Northern Ireland may follow, whilst security of tenure and provision for second generation rent control has been introduced into the Scottish private rented sector (Stephens, 2016). The UK therefore presents the intriguing possibility of a variety of housing regimes emerging from within a largely common wider welfare regime.

## V. CONCLUDING COMMENTS

The short review of three countries suggests the following:

- The wider welfare regime (defined as the labour market, and its interaction with the tax and social security system) has changed in Germany and Sweden since the 1990s. The distributional consequences of these changes has been to increase relate poverty rates, and – especially in Germany – to change the *nature* of the labour market away from one previously defined by full-time male employment, to one with higher levels of female employment, but with a growth of temporary and part-time employment.
- The wider welfare regime in the UK has also evolved since the mid-1990s, first with targeted measures to reduce pensioner, child and in-work poverty, followed by more stringent conditionality resulting in a rise in destitution in part arising from benefits sanctions.
- The institutions of Sweden’s unitary housing regime are largely intact, but it no longer functions as a “unitary” system in the way that Kemeny envisaged. Shortages of new rental housing have created a strong division between “insiders” and “outsiders”, whilst the cost-rental sector has become subject to clear lines of segmentation (or stratification) reflecting ethnic segregation. Moreover, the rise in mortgaged home-ownership within the context of rising property values suggests that the rental sector no longer competes effectively against home-ownership.
- The German rental system as a whole appears to have retained its ability to compete with home-ownership, whose levels have remained stable for many years. Germany has also resisted the “financilization” of home-ownership, both in terms of mortgage debt, and property values. However, it is difficult to maintain that the rental system operates as a unitary system through the competitive power of the much-diminished cost-rental sector.
- The English housing system appears to be mirroring the shift away from safety-net to a more conditional support system that has been experienced in social security. It appears to be making the transition from “safety net” to “ambulance service” seen in other dualist systems such as the US and Australia. Divergence between housing systems in different nations of the UK (particularly in Scotland) suggest that different housing regimes may be emerging within the context of what is still broadly the same wider welfare regime.

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#### End Notes

<sup>i</sup> This seems questionable in the case of the UK where the Labour Party was formed by trade unions, and whose influence was embedded within the structures of the party. It is true that this influence has changed since the 1980s.

<sup>ii</sup> The probable explanation for this discrepancy is that the paper published in English in 2006 was originally published in Swedish in 2003.

<sup>iii</sup> Contrary to Kemeny's speculation that Sweden was influenced by ordo-liberalism, I can find no reference to this in the literature. Although Germany and Sweden adopted corporatist structures, the purpose of Swedish wage bargaining was more egalitarian than its German counterpart. The two countries' industrial strategies and macro-economic frameworks were clearly quite different.

<sup>iv</sup> However, according to Esping-Andersen (1990:26), the meagre flat-rate benefits lead the middle-class to seek superior protection from the market, so inadvertently creating a dualist system of welfare.

<sup>v</sup> This section is largely drawn from Stephens, 2013 and Stephens and Stephenson, A (2016)