Critical Housing Analysis
Volume 2 | Issue 1 | 2015 | 22-31
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2015.2.1.173

Housing: Asset-based Welfare or the 'Engine of Inequality'?

Mark Stephens

Public Policy Professor, Heriot-Watt University, School of the Built Environment, I-SPHERE, Edinburgh EH14 4AS
m.stephens@hw.ac.uk

Martin Lux (corresponding author)

Researcher, Head of the Socio-economics of Housing Department, Institute of Sociology, The Czech Academy of Sciences
Jilská 1, 110 00, Prague
martin.lux@soc.cas.cz

Petr Sunega

Researcher, Institute of Sociology, The Czech Academy of Sciences
Jilská 1, 110 00, Prague
petr.sunega@soc.cas.cz

Keywords: homeownership; asset-based welfare; welfare state.

Homeownership has been promoted in quite diverse contexts for decades. For example, in the Anglo-American context it was associated with thrift, responsibility and independence. It became an essential component of the 'American dream' and, in the UK, part of the 'property owning democracy.' These cultural connotations – along with continental variants such as *'every Belgian is born with a brick in his belly'* – nonetheless centred upon the way in which housing was consumed.

The attainment of homeownership through mortgage finance – the bedrock of the Anglo-American model – did have an important welfare component, however. The attainment of outright ownership by the time of retirement played an important role in compensating households for the drop in income associated with retirement. Studies that detect an association between homeownership and weak state pension provision may be less convincing regarding the causality, but they have identified a straightforward form of asset-based welfare. In systems – southern Europe (now with the exception of Spain) and the formerly socialist countries of central and eastern Europe – without such dependency on mortgage finance, homeownership unencumbered by debt extended the benefits of low housing costs into periods of economic uncertainty or restructuring, and compensated for underemployment and early retirement. These models of homeownership have some merit. They helped to weaken the link between low income and inadequate housing. Their occupants seem to be generally satisfied with their housing, too (Stephens et al. 2010).

However, what is now thought of as 'asset-based welfare' is associated with what economic sociologists call the 'financialisation' of housing (Epstein 2005). In this context, financialisation identifies the tendency of homeownership to be increasingly linked to debt. The structural causes of financialisation arise from the globalisation of finance, at least from the 1980s. The deregulation of some mortgage finance markets, notably in Scandinavia and Spain as well as in the Anglophone world, in the 1980s weakened the link between housing and local savings institutions and increasingly connected local housing markets with global wholesale finance markets, culminating with the increasing use of securitisation. In the 2000s, the deregulatory impetus was boosted by the world-wide structural imbalance caused by the emergence of the Chinese economy with its extraordinary propensity to save. The resultant abundance of very cheap funds for lending world-wide was given an additional twist in Europe as the establishment of the Eurozone led the cost of borrowing to tumble in Ireland and southern Europe.

A combination of structural causes and policy errors therefore contributed to the asset boom of the 'NICE' (non-inflationary continuous expansion) decade of 1997-2007. Some academics have argued that this was a strategy pursued to compensate middle- and lower-income households for stagnation or reductions in their labour-market incomes as wage inequality soared (Schwartz and Seabrooke 2008). Homeowners, enjoying ever growing asset values, could utilise these to compensate for disruptions in income and to pay for retirement. The relatively crude 'equity withdrawal' products introduced in the 1980s allowed homeowners to secure a fixed sum by borrowing against the equity in their properties. In a continuously rising market this is a process that can be repeated, and by the mid-2000s this had become sufficiently diverse in use and regular in occurrence to be regarded as a form of asset-based welfare (as opposed to consumer expenditure) in the UK (Lowe et al. 2012). The next 'stage' was the emergence of 'equity release' (or reverse mortgage) products, which are intended to provide homeowners with an income stream derived from the running down of their ownership of their home.

Critical Housing Analysis
Volume 2 | Issue 1 | 2015 | 22-31
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2015.2.1.173

Some effort has gone into explaining why there is resistance to 'equity release' products among consumers in those (primarily but not exclusively English-speaking) countries where they have been marketed. These include the fact that many outright owners also have good pensions, or are simply sufficiently compensated by low housing costs so do not need to release equity (Turner and Yang 2006), the over-riding commitment to the 'bequest motive' (i.e. leaving the home to children), as well as lack of trust in the products themselves:

> *Reverse mortgages can yield cash quickly but they are complicated and can expose vulnerable homeowners to potentially serious financial risks, such as negative equity, rising interest rates, falling property values, and default conditions that could, for example, trigger immediate loan repayment and negate no negative equity guarantees. Moreover, costs and benefits are unpredictable because of variations in interest rates, real estate prices and life/independence expectancies.* (Bridge et al. 2010, p. 1)

It seems doubtful that there was a coherent attempt to de-socialise welfare through owner-occupied housing. In the UK, for example, Government rhetoric that supported this idea coincided with policies that greatly increased income support for pensioners, resulting in pensioner poverty rates falling below those of the general population for the first time.

In any case, the shift from societal risk-pooling, which is at the heart of any welfare state, simply cannot be reproduced satisfactorily through asset-based welfare. Apart from the obvious impediment of the property cycle (prices go down as well as up), it is nonetheless predicated on ever rising asset values in the long-run. The principal distributional consequence is an inter-generational one: from younger to older people. The result is two-fold. Inter-generational inequality grows as younger people pay higher prices for housing, ultimately leading to many people to be priced out of it, so making the phenomenon a single-generation one (at least for the bulk of the population). The decline in homeownership among younger and middle-aged cohorts in Australia and the UK has been dramatic, as asset-rich homeowners remortgage their properties and rent them to the very people who have been priced out. A key motivation for the new landlords is the break-down of occupational and private pensions as a consequence of the same macro-economic environment that makes borrowing money to purchase assets cheap. Meanwhile, the chances of accessing homeownership among younger people become increasingly dependent on the ability of parents to assist them, and this in turn depends on their parents' housing wealth. In these ways, housing has become the engine of inequality.

Yet it is crucial to recognise that the engine of inequality continues to be fuelled by macroeconomic policy. In the USA and the UK, the response to the GFC was to adopt exceedingly loose monetary policies, and the introduction of quantitative easing – a strategy designed to uphold asset values. The European Central Bank has now followed suit. It is quite possible that these approaches replicate past errors by allowing property to lead the economy. A looser fiscal policy and a tighter monetary policy may have helped rebalance economies away from property dependence – and incidentally protect socialised welfare. Montgomerie and Büdenberder (2014) show that the financialisation of owner-occupied housing is a consequence of unique political and economic conditions that will very likely not be recur in the future; therefore, security in the form of owner-occupied housing cannot be regarded as an equal alternative to security provided from public budgets.

While advanced western European countries are still rather just flirting with the idea of housing asset-based welfare as a supplement to the traditional welfare state, according to Izuhara (2015) the idea is nothing new in Southeast Asia. However, as the example of Japan has shown, strategies to use housing asset-based welfare have hitherto proved unsuccessful in a context of rapidly ageing societies, recession, housing price volatility, and neoliberal reforms.

It is at the same time clear that the debate and research surrounding housing asset-based welfare comprises a variety of perspectives and are not limited just to the problem of the sustainability of pension systems. For example, discussions also turn on the effects that policies supporting homeownership generally could have on wealth and income inequalities, housing market risks, and the attitudes and strategies of households in the housing market.

Ever since the early 1980s the link between the share of owner-occupied housing in a housing system and public welfare has been the subject of discussion (Kemeny 1981; Kemeny 2005; Bengtsson 2001; Kleinman 1996; Malpass 2003; Torgersen 1987; Castles 1998; Doling and Horsewood 2011; Watson 2009; Groves et al. 2007; Doling and Elsinga 2012; Conley and Gifford 2006). Kemeny (1981) argued that a policy emphasis on homeownership has an impact on general welfare provision because young homeowners, financially hard-burdened by mortgage repayments and child-rearing, resist paying high taxes for public welfare provision. He also wrote that in societies with 'poor public welfare provisions for the elderly, households are forced to make private provision for the old age' (Kemeny 2005: 62) and therefore become homeowners to minimise the threat of poverty in older age. Castles (1998) confirmed the negative correlation between public welfare and homeownership, which he called 'a really big trade-off.'

Many studies focus on investigating the effects that strengthening the role of owner-occupied housing has on the development or exacerbation of inequalities in society (e.g. Fahey et al. 2004; Dewilde and Raeymaeckers 2008). This is due to unequal access to owner-occupied housing and social and regional differences in housing prices (Levin and Price 2011). In many countries owner-occupied housing is typically the subject of intergenerational solidarity and is passed down as an inheritance, which, however, serves to reproduce social inequalities across generations (Blaauboer 2010; Boehm and Schlottmann 1999; Helderman and Mulder 2007; Mulder and Smits 2013).

Other studies seek to examine the individual risks attached to owner-occupied housing as a household's primary form of investment; given the high cost of acquiring housing, households are often unable to diversify risk with portfolio investments. Housing price volatility, and the consequent price risks attached to residential real estate investments, have so far been increasing in OECD countries (Claessens et al. 2011; Bracke 2011); and this naturally adds to the insecurity surrounding the use of housing assets as a source of welfare.

Studies also devote themselves to examining changes in household strategies in relation to the strengthening role of owner-occupied housing, including the use of equity release, in order to increase household incomes at different stages of the life cycle (the DEMHOW project). De Decker and Dewilde (2010) have shown that Belgian households take a sceptical view of using owner-occupied housing for increasing income in old age; Haffner (2008) had similar findings for Dutch households.

Volume 2 | Issue 1 | 2015 | 22-31
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2015.2.1.173

The contributions to this special issue of Critical Housing Analysis equally reflect this diversity of perspectives. The first two articles focus on the state and policy perspectives and examine general risks and conditions surrounding housing asset-based welfare as a government policy. The other articles focus more on how housing assets are viewed and used by the very actors themselves – households – and in the particular context of selected countries: the UK, Norway, and Hungary.

The opening article by Marja Elsinga and Joris Hoekstra describes the theory behind (housing) asset-based welfare and its application in real policies. The 'Janus face' of housing asset-based welfare (where the first face looks to alleviating poverty while the second one presents itself as a solution to pension problems) gives rise to a number of paradoxes and as yet unanswered questions, which to at least some extent call into question the implementation of this concept as sustainable policy. There are paradoxes in role of the state, which in solving one problem (pensions) may simultaneously be ushering in new ones (homeownership becomes less affordable), and in real household strategies, which are not consistent with the government expectations. Moreover, uncertainty about what effects this policy could have on homeowners, tenants and tenure inequalities puts the concept into power vacuum: while for different reasons, both thinkers on the political right and left have doubts about it. The authors conclude their article by noting the persistent lack of coherence between policy tools and policy objectives. They ask, 'Are housing assets considered superfluous, a pillar of the pension system or a cornerstone of the welfare state?' Each of these objectives touches on a different problem and makes different demands on the role of government. Only by clearly formulating the objectives the policy concept may become more coherent and its effects easier to foresee.

In the second article, Stephan Köppe also challenges the goals of housing asset-based welfare as a solution to pension and care issues. He points out that while the traditional social insurance scheme is based on the principle of risk-pooling, in which everyone participating is protected against risks in the same way as during standard insurance schemes, asset-based welfare by contrast individualises social risks and instead of providing households with security exposes them to new types of risks. The author describes the risks faced in different stages of the life cycle (accumulation, management, use and transfer of housing assets), which, he argues, in sum counter to the objectives of social policy, and he ultimately 'questions the welfare function of housing wealth as propagated by the asset-based welfare hypothesis'.

Richard Ronald, Justin Kadi and Christian Lennartz present a case study in the third article that shows how household strategies in relation to housing asset-based welfare have evolved specifically in the UK – although, this concept has certainly undergone or is currently undergoing similar development in many other countries. The authors demonstrate how 'passive' homeownership-based welfare, where what was expected from homeownership was being able to spend less on housing in old age, transformed into 'active' household strategies, characterised by the application of equity release, and, in the past decade, into 'pro-active' buy-to-let investment strategies. This transformation, claim the authors, has serious but as yet uncharted implications for inequalities between different generations of homeowners (and due to intergenerational wealth transfers, also for horizontal inequalities across younger cohorts). The question is whether, given these growing inequalities, any policy that rests on

Volume 2 | Issue 1 | 2015 | 22-31
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2015.2.1.173

housing asset-based welfare or even on general support of the expansion of homeownership is sustainable in longer term.

The article by Adriana Soaita and Beverley Searle focuses on perceptions of housing wealth gains among households, again in the UK. Drawing on a unique study of 80 homeowners and using terminology of behavioural economics the authors show how capital (wealth) gains are miscalculated due to the inflation myopia and, what they call, ‘debt amnesia’ of the British households. Although data have shown that homeowners have truly made ‘impressive’ wealth gains, these gains are nonetheless lower than the households themselves claim: not just because they forget to discount inflation from their nominal gains, but also because they forget about expenditures on servicing mortgage debt (debt amnesia). Households’ unsophisticated understanding of the gains from assets and their perception of rental housing as a ‘continuous liability’ lead the authors to question the notion of tenure choice as a real choice.

The fifth article introduces us to a somewhat different and in many respects unique context – Norway. A generous public pension system and a housing policy that priorities support for homeownership are both present in Norway. However, recent years have seen a substantial rise in housing prices (and the wealth of existing homeowners), which in turn has made homeownership much less accessible to young cohorts. Lars Gulbrandsen and Hans Christina Sandlie ask whether, conforming to the ‘crowding-out’ hypothesis, a generous public welfare system undermines within-family (intergenerational) responsibility and solidarity. Will ‘older cohorts’ of homeowners spend their housing wealth gains for their own ‘high days and holidays’ or will they support the younger generation facing a housing affordability problem? Based on their field study they found that ‘intergenerational transfers in family remain widespread and substantial’ and that a ‘combination of increasing house prices and substantial public pensions makes it possible for the elderly to use their housing wealth…to support descendants in embarking on homeownership’. This nice story about how an increasing homeownership rate, house price hikes and a generous public welfare together may increase within-family solidarity is, however, very context-sensitive.

This is, by the way, demonstrated in the final article, by Jozsef Hegedüs and Hanna Szemzö, which focuses on case of Hungary. In many post-socialist countries a significant share of household earnings come from the informal economy given the public rational response to the changes in the way the economy works and distrust people felt towards the state use of tax revenue. However, tax evasion and the inability of successive governments to make any effective pension reform means that there is a danger of a significant decrease in public welfare and a rise in poverty in a large section of the future population of seniors. The authors show that housing assets in these super-homeownership systems may help in this respect, but that most households with children are planning to use their property to help their children become homeowners rather than to release equity to increase their own old-age incomes. How people actually behave in the end is of course an open question, but many of them will one day be confronted with the decision of whether to sacrifice their children or themselves. Clearly this is a very different story to Norway.

All the accounts in this special issue relate housing to welfare (or welfare to housing) and except for the Norwegian case they tend to be critical of the assumptions attached to policies based on the expansion of homeownership and asset-based welfare. Although none of the authors directly states that the policy of housing asset-based welfare will not work, they raise

Volume 2 | Issue 1 | 2015 | 22-31
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2015.2.1.173

serious doubts about its framing, definition, coherence, consequences and its real impact on household behaviour.

There are too many open questions and huge uncertainty surrounding this issue – much more uncertainty than the young generation, faced with increasing labour market risks, decreasing housing affordability and lower real public pensions in the future, is likely to be able to accept. Sooner or later – but possibly sooner than later – the lethargy that has come to grip the issues of growing intergenerational and horizontal inequalities in housing wealth gains and the future role of public pension and individual asset schemes, may lead a large part of young generation to doubt the ability of recent politics to seriously tackle these problems – at least in those countries where the ageing of the population is expected to progress quickly and public welfare to decrease significantly. The paradoxes of housing asset-based welfare sketched in this special issue need to be seen as an imperative for starting serious public discussion about our future.

The debate needs to begin now!

References

Bengtsson, B. 2001. 'Housing as a Social Right: Implications for Welfare State Theory.' *Scandinavian Political Studies* 24 (4): 255-275. DOI: 10.1111/1467-9477.00056.

Blaauboer, M. 2010. 'Family Background, Individual Resources and the Homeownership of Couples and Singles.' *Housing Studies* 25 (4): 441-461. DOI: 10.1080/02673031003711493.

Boehm, T. P., A. M. Schlottmann 1999. 'Does home ownership by parents have an economic impact on their children?' *Journal of Housing Economics* 8 (3): 217-232. DOI:10.1006/jhec.1999.0248.

Bracke, P. 2011. *How long do housing cycles last? A duration analysis for 19 0ECD countries.* IMF Working Paper No. WP/11/231. IMF.

Bridge, C. et al. 2010. *Reverse mortgages and older people: growth factors and implications for retirement decisions*. AHURI Final Report No. 146. Melbourne: Australian Housing and Urban Research Institute.

Castles, F. G. 1998. 'The really big trade-off: Home ownership and the welfare state in the new world and the old' *Acta Politica* 33 (1): 5-19. DOI: 10.1177/0958928703013002004.

Claessens, S., M. A. Kose, M. E. Terrones 2011. *Financial cycles: What? How? When?* IMF Working Paper No. WP/11/76. IMF.

Conley, D., B. Gifford 2006. 'Home Ownership, Social Insurance, and the Welfare State.' *Sociological Forum* 21 (1): 55-82. DOI: 10.1007/s11206-006-9003-9.

De Decker, P., C. Dewilde 2010. 'Home-ownership and asset-based welfare: the case of Belgium.' *Journal of Housing and the Built Environment* 25 (2): 243-262. DOI: 10.1007/s10901-010-9185-6.

Dewilde, C., P. Raeymaeckers 2008. 'The trade-off between home ownership and pensions: the individual and institutional determinant of old-age poverty.' *Ageing and Society* 28: 805-830. DOI: http://dx.doi.org/10.1017/S0144686X08007277.

Doling, J., M. Elsinga 2012. *Demographic Change and Housing Wealth: Home-owners, Pensions and Asset-based Welfare in Europe.* New York: Springer.

Doling, J., N. Horsewood 2010. Home Ownership and Pensions: Causality and the Really Big Trade-off. *Housing, Theory and Society* 28 (2): 166-182. DOI: 10.1080/14036096.2010.534269.

Epstein, G. 2005. *Financialization and the World Economy*, Cheltenham: Edgar Elgar.

Fahey, T., B. Nolan, B. Maitre 2004. Housing expenditures and income poverty in EU countries. *Journal of International Social Policy* 33 (3): 437-454. DOI: http://dx.doi.org/10.1017/S0047279404007767.

Groves, R., A. Murie, C. Watson 2007. *Housing and the new welfare state: Examples from East Asia and Europe.* Aldershot: Ashgate.

Haffner, M. E. A. 2008. 'Savings for Old Age? Housing Wealth of the Dutch Elderly.' *Housing, Theory and Society* 25 (2): 110-131. DOI: 10.1080/14036090701547564.

Helderman, A., C. Mulder 2007. 'Intergenerational transmission of homeownership: The roles of gifts and continuities in housing market characteristics.' *Urban Studies* 44 (2): 231-247. DOI: 10.1080/00420980601075018.

Izuhara, M. 2015. Reconsidering the Housing Asset-Based Welfare Approach: Reflection from East Asian Experiences. *Social Policy and Society*. Published online. http://dx.doi.org/10.1017/S1474746415000093.

Kemeny, J. 1981. *The myth of home ownership: Public versus private choices in housing tenure.* London: Routledge.

Kemeny, J. 2005. 'The really big trade-off' between home ownership and welfare: Castles' evaluation of the 1980 thesis, and a reformulation 25 years on.' *Housing, Theory and Society* 22 (2): 59-75. DOI: 10.1080/14036090510032727.

Kleinman, M. 1996. *Housing, Welfare and the State in Europe; a Comparative Analysis of Britain, France and Germany.* Cheltenham: Edward Elgar.

Levin, E. J., G. Price 2011. 'The dynamics of spatial inequality in UK housing wealth.' *Housing Policy Debate* 21 (1): 99-132. DOI: 10.1080/10511482.2010.534389.

Lowe, S., B. Searle, S. Smith 2012. 'From Housing Wealth to Mortgage Debt: The Emergence of Britain's Asset-Shaped Welfare State.' *Social Policy and Society* 11 (1): 105-116. DOI: http://dx.doi.org/10.1017/S1474746411000455.

Malpass, P. 2003. 'The Wobbly Pillar? Housing and the British Postwar WelfareState.' *Journal of Social Policy* 32 (44): 589-606. DOI: http://dx.doi.org/10.1017/S0047279403007177.

Montgomerie, J., M. Büdenbender 2014. 'Round the Houses: Homeownership and Failures of Asset-Based Welfare in the United Kingdom.' *New Political Economy* 20 (3). DOI: 10.1080/13563467.2014.951429.

Mulder, C. H., A. Smits 2013. 'Inter-generational ties, financial transfers and home-ownership support.' *Journal of Housing and the Built Environment* 28 (1): 95-112. DOI: 10.1007/s10901-012-9302-9.

Schwartz, H., L Seabrooke 2008. 'Varieties of Residential Capitalism in the International Political Economy: Old Welfare States and the New Politics of Housing.' *Comparative European Politics* 6: 237-261. DOI: 10.1057/cep.2008.10.

Stephens, M, S. Fitzpatrick, M. Elsinga, G. van Steen, Y. Chzhen 2010. *Study on Housing and Exclusion: Welfare Policies, Housing Provision and Labour Markets*, Brussels: European Commission.

Torgersen, U. 1987. 'Housing: The wobbly pillar under the welfare state.' *Scandinavian Journal of Housing and Planning Research Supplement* 4 (1): 116–127. DOI: 10.1080/02815737.1987.10801428.

Volume 2 | Issue 1 | 2015 | 22-31
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2015.2.1.173

Turner, B. N. Z. Yang, 2006. 'Security of home ownership – using equity or benefiting from low debt.' *European Journal of Housing Policy*, 6 (3): 279-296. DOI: http://dx.doi.org/10.1080/14616710600973128.

Watson, M. 2009. 'Planning for the future of asset-based welfare? New Labour, Financialized economic agency and the housing market.' *Planning, Practice and Research* 24 (1): 41-56. DOI: 10.1080/02697450902742148.