

ECONOMIC AND SOCIAL DEVELOPMENT IN THE NEW EU: THE ROLE OF HOUSING SYSTEMS AND PROSPECTS FOR HOUSING POLICY

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Abstract

Primary objectives of the EU, re-confirmed since enlargement in 2004, include the achievement of a dynamic and growing European economy allied to a strong commitment to the European social model. This paper examines the role of national housing systems and housing policy in achieving these objectives. Following a brief summary of the main dimensions of the housing systems of EU member states, which emphasises particularly the significance of home ownership, it presents research evidence, largely based on the use of data aggregated at member state level, about the opportunities provided to individual homeowners by virtue of their housing tenure. Whereas some of these opportunities contribute positively to economic growth, for others the aggregate economic consequences are less positive. Moreover, they indicate a major source of inequality in European populations, a fault line dividing owners and renters. The paper concludes with consideration of housing policy and housing policy making in the EU.

Topic. Inequity and Inequality and redistribution policies within the EU (and other)

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INTRODUCTION

When they met in Portugal at the start of the millennium, EU ministers committed themselves to an ambitious programme to advance European economies to become by 2010 "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment". Motivating this 'growth and employment' strategy - at the heart of the so-called Lisbon strategy - was an assessment that member states, if they wished to offer their citizens jobs and economic well being within the context of Europe's particular social model, would have to act with determination to catch up with the US in particular.

In March 2004, just in advance of the formal enlargement of the EU, the European Council charged the Commission with the setting up of a High Level Group, under the chairmanship of Wim Kok – former Prime Minister of the Netherlands - to undertake a review of progress and to recommend further measures. The Kok report, published in November 2004, concluded that at the half way stage there had been some positive achievements, notably in increasing labour participation rates for all people of working age but especially older workers and women. In many respects, however, the picture was more gloomy and the outlook pessimistic: the gap in productivity between Europe and the US had grown and looked to widen yet further. Broadly, the post war process of catching up had petered out by the mid 1970s and then for two decades remained broadly stable. Since the mid 1990s, however, output per worker in the EU had grown less quickly than in the US. As the report concluded: "From holding its own, Europe is now losing ground" (European Commission 2004: 14). It went on to map out the broad, social consequences:

At risk - in the medium to long run - is nothing less than the sustainability of the society Europe has built. Europeans have made choices about how to express the values they hold in common: a commitment to the social contract that underwrites the risk of unemployment, ill-health and old age, and provides opportunity for all through high-quality education, a commitment to public institutions, the public health and the public interest, and that a market economy should be run fairly and with respect for the environment. These values are expressed in systems of welfare, public institutions and regulation that are expensive in a world where low cost and highly efficient production are challenging the old order. If Europe cannot adapt, cannot modernise its systems and cannot increase its growth and employment fast enough then it will be impossible to sustain those choices. (European Commission 2004: 16)

Other than in one paragraph that contained statements about the desirability of increasing the size of home ownership sectors and decreasing housing transaction costs, the Kok report had nothing directly to say about the role of housing. There is, however, increasing evidence of the importance, both economic and social, of housing sectors. National housing sectors form major parts of the economies of member states, accounting for significant shares of gross capital formation and total credit (ECB 2003). For individual households their homes are commonly their largest single item of expenditure and play a crucial role in determining patterns of living and quality of life. With developments in house price inflation and in financial markets, individual households have been increasingly enabled to use their homes as collateral and to extract equity from their homes. Among other things, this has enabled households to fund small business formation and to consider a personal alternative to participation in the labour market.

A central argument of this paper is that these opportunities, once they are aggregated from the individual to the state, have significant impacts upon national economic development. Some - such as the stimulation of self employment - may be positive, while others - such as the early withdrawal from participation - may be negative. In addition to the economic consequences of the opportunities derived from the ownership of housing, there are social consequences. Insofar as these are opportunities open to individual home owners, but not to tenants, tenure has become the origin of an inequality - a division or faultline - in European societies.

The existence of these economic and social impacts of housing systems has consequences, in turn, for housing policy in Europe, which include issues of both what sorts of housing systems are desirable and what policies would help achieve them, as well as the appropriateness of the current policy making institutions: in short, should housing policy be made at the level, as at present, of member states and their subdivisions or at the level of the EU?

In the next section of this paper tenure and housing finance aspects of housing systems in member states of the EU are presented. This is followed by the presentation of research findings using data aggregated at the member state level that indicates the role of homeownership in a number of areas of economic activity. The final section examines some of the policy issues derived from the economic and social consequences of housing systems.

HOUSING SYSTEMS IN EU MEMBER STATES

Housing tenure

During recent decades, home ownership sectors in most European countries have grown in size (see table 1). Even by the mid 1990s, taken over the pre-enlarged EU (EU15) as a whole approximately two-thirds of households were homeowners (Doling 1997). In those countries that were formerly under communist rule (some now part of the enlarged EU) as their land and housing sectors have recently been opened up to market forces,

home ownership has also generally been expanding (Lowe and Tsenkova 2003). Although there is considerable variation across Europe, with national rates ranging from about 40 per cent to about 90 per cent, the majority of European Union households now own their own homes, with a minority renting from private or social landlords.

Table 1: The post war growth of home ownership (% share of total stock by year) and real annual house price inflation (%).

	1945/50	1960	1970	1980	1990	2002	House price growth rate
Austria	36	38	41	48	55	56	1987-2001 3.5
Belgium	39	50	55	59	67	71	1981-2001 1.2
Czech Republic	-	-	-	-	-	47	-
Denmark	-	43	49	52	51	51	1980-2001 1.0
France	-	41	45	51	54	55	1980-2001 1.4
Finland	-	57	59	61	67	58	1981-2001 0.9
Germany	-	-	-	-	38	42	1980-2001 0.5
Greece	-	-	-	70	77	83	1994-2001 3.4
Hungary	-	-	-	-	-	92	-
Ireland	-	-	71	76	81	77	1980-2001 3.7
Italy	40	45	50	59	67	70	1980-2001 1.2
Lithuania	-	-	-	-	-	84	-
Netherlands	28	29	35	42	44	53	1980-2001 2.3
Norway	-	-	53	59	59	77	=
Portugal	-	-	-	57	58	64	1988-2001 0.4
Slovenia	-	-	-	-	68	82	-
Spain	-	-	64	73	76	85	=
Sweden	38	36	35	41	42	42	1980-2001 -0.2
UK	29	42	49	56	68	69	1980-2001 3.1

Note: dates are approximate

Sources: Homeownership rates Catte *et al* (2004) and Scanlon and Whitehead (2004); house prices ECB (2003)

House prices

The shifting balance within each member state of owners to renters, generally toward the former, is associated with the long term trends in house prices. Of those member states for which data are available, with the exception of Sweden, average house prices have increased in real terms (table 1). Although in all countries there may have been regional and house type as well as cyclical variations in price movements, over the long run the owners of housing have experienced positive price gains. In that sense home ownership, in comparison with renting, has commonly presented an attractive financial option.

Financial markets

The tenure balance has also been associated with developments in financial market. A difficulty facing many would-be home owners is that average house prices are high relative to average incomes. In all industrialized countries financial institutions and mechanisms have been developed which have enabled people to borrow all or some of the purchase price of home ownership and to repay over an extended period of years. Generally households have been able to use the dwelling itself as collateral so that they have not needed either to find a guarantor or to build up some alternative asset.

Changes in financial markets over the last two to three decades have significantly impacted on the nature of housing markets and the expansion of homeownership. In the early post war decades, in most European countries institutional differences were maintained by country specific policies designed to support housing finance within national capital markets, creating distortions where tax-advantaged funds were channelled into low cost, housing finance. In the 1970s financial institutions generally had limited ability to increase mortgage lending and, in any case, lending for house purchase was generally reserved for specialised institutions. These institutions were restricted from engaging in other activities, and the terms and conditions of mortgage lending were regulated (MacLennan et al 1998). From the 1980s onwards a number of financial reforms have been implemented by national governments leading to an increase in competition with new entrants competing for market share. The reform process has not been uniform, so that competitive pressures have been less intense in some countries than in others.

In addition to the actions of national governments, the European Union has also been an active agent of reform, being long interested in the creation of a single market for financial services, including mortgage finance. The Single Market programme, set out in the Cecchini Report, was intended to generate cross-border competition and reduce the differences in levels of efficiency between the financial institutions in each state. The Second Banking Directive created a framework whereby financial institutions were to be supervised by the government of their own countries and once licensed an institution would be free to set up branches in other EU countries. In fact, even before the completion of the legislation UK banks, which operated within one of the most competitive markets, began to enter other European mortgage markets (McCrone and Stephens 1995).

Notwithstanding the general move toward liberalisation, significant differences in the financial systems persist:

These changes increased the integration of the housing credit market with the rest of the financial system and created conditions for a rapid expansion of the range of mortgage products available.....Despite the integration process, housing credit systems have continued to be characterised by different types of mortgage contracts, partly reflecting regulator differences and partly contracts and

conventions established in earlier periods when inflation rates and interest rate variability were very different across countries(ECB 2003: 43)

Examples of the differences include the amount of the outstanding mortgage debt relative to GDP and the existence of equity release products (table 2).(Other continuing differences and possible future direction are discussed in Mercer Oliver Wyman 2003 and 2005).

Table 2. Mortgage debt ratios

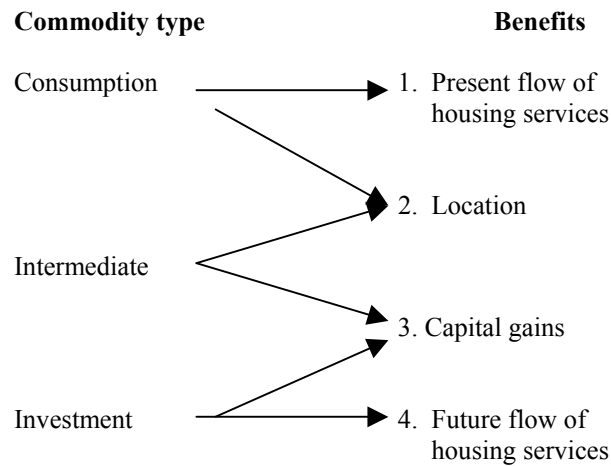
Country	Mortgage debt to GDP (%)	Change in mortgage debt to GDP 1996-2002	House equity release products available and/or permissible
Austria	27	6	-
Belgium	28	6	No
Denmark	82	18	Yes
Finland	32	1	Yes
France	19	1	Not used
Germany	51	2	Yes
Greece	15	11	Yes, but of very limited use
Ireland	37	12	Yes, but so far limited to certain uses
Luxembourg	18	-7	Not used
Netherlands	88	35	Yes
Portugal	50	28	Legally permissible, but not marketed
Spain	38	23	Yes, but unusual
Sweden	48	-8	Yes
UK	62	1	Yes

Sources: Mortgage debt - Hypostat 1992-2002, European Mortgage Federation, Brussels; equity release – ECB (2003).

Tenure and inequality

Differences in national housing systems constitute the context of inequality, in the form of different sets of opportunities, which derives from the tenure position of individual households (see Boelhouwer et al 2005). These opportunities are, in turn, based in the complexity of housing as a commodity (table 3). Considered as a consumption good, housing delivers, day-by-day, a flow of services in the form of a physical structure of a certain size, with certain condition and certain facilities, which the user is able to enjoy. In addition, each house has a unique location that affords a unique pattern of proximities to goods (clean air, open space) and bads (pollution, noise).

Table 3 User Benefits of Housing



But, housing might also be considered as a type of intermediate good, that is one which is used as an input to the achievement of other objectives. Thus, a house accessible to job opportunities, in the catchment area of a good school, or close to high quality primary health care facilities may better facilitate desirable outcomes for the household: work for all family members that want it, good schooling for the children and good health care for all. In addition, where users of housing are also owners, any proportion of the equity owned, and which may have increased either because the loan is being repaid and/or the market value of the house has increased, may be used as collateral enabling the purchase of a variety of types of good.

Finally, housing may also be viewed as an investment good. The capital gains achieved constitute an asset that may at some future stage be realised. Where housing is owned outright, depending on taxation arrangements, the user is also in a position to enjoy future consumption of the flow of housing services without further payment. This does not of course mean that households will not spend on housing, for example by expensive renovations, but that, if they wish, they may be able to incur small housing costs.

In this schema, tenants and owner occupiers alike, receive benefits 1 and 2. The level of the benefits they enjoy - the standard of the building's facilities and the proximity to open space - is determined not by tenure, but rather, in the case of market housing, by the amount the individual is willing and able to pay for housing, and, in the case of social housing, of the rules of the landlord organisation. Benefits 3 and 4, however, in most cases accrue only to owner occupiers.

There will be a distinction between those with considerable equity, on the one hand, and those with little or no equity, on the other, in that the former will generally have more of the potential benefits. National variations in matters such as the availability of equity release products and house price trajectories will have an impact on the opportunities

facing home owners. Nevertheless, whatever other characteristics of renters and owners, and whatever the particular characteristics of national systems, these benefits generally set owners apart in a position of relative advantage.

HOME OWNERSHIP AND ECONOMIC OPPORTUNITIES

Central to the Lisbon and the Kok objectives have been targets for increased participation in all member states, with high levels of employment being seen as essential for achieving greater social cohesion and eradicating poverty. Employment, then, is regarded as an effective means of protecting and enhancing social and financial sustainability underlying the development of European welfare systems. At the Lisbon summit the low level of employment among working age people - especially women and older (55-64 years) people - was identified as a major area of concern. Targets to be achieved by 2010, were set at 70 per cent for all workers and 60 per cent for women. At the Stockholm meeting in 2001 intermediate targets, to be achieved by 2005, as well as specific targets, to be achieved by 2010 - for older men (67 per cent) and older women (57 percent) - were set.

The Kok report re-states and re-affirms the importance of high participation rates to the European project. Its financial market and housing proposals may be viewed as intended to make a positive contribution to this effect: increased mobility helping to achieve a better geographical fit between the demand for and supply of labour, and a more efficient financial sector facilitating the setting up and expansion of SMEs and providing a boost to aggregate demand. But, Kok does not explicitly address the issue of the impact, direct or indirect, of home ownership on employment growth and participation rates. So, are there reasons for thinking that more home ownership in member states would enhance or detract from the growth and jobs objectives?

In fact there are a number of large bodies of literature - in economics, sociology and social policy - that examine labour force participation. Some focus particularly on behavioural factors such as the individual's state of health or preference for leisure, whereas others locate their analysis in structural factors. In the latter, the importance of labour market conditions such as the overall level of unemployment or the supply of part-time jobs is frequently stressed, as is the scale and nature of public policies such as the balance in each country of active and passive labour market policies, and the level of social expenditure.

Here, we consider institutional explanations for trends over time and differences between countries in three specific aspects of economic activity: self employment and labour force participation by younger women, aged 23 - 34 years, and labour force participation by older men and women, aged 55 to 64. Drawing on the findings of a EU wide research study, aggregate trends are briefly described and macro factors affecting those trends, with particular emphasis on the role of home ownership, identified (Doling et al 2005, Neuteboom and Dol 2005, and Turner et al "005). Whereas we present here a written

description of the main findings, the appendix contains, with respect to the analysis of self employment, a brief illustration of the broad approach taken in all the research.

Self employment

During the 1990s in most OECD countries, self-employment grew at a faster rate than employment in general. At the disaggregate level, notable trends in self-employment in most OECD countries included the increase in the number of women entering self-employment: whereas there has been a general increase in female participation rates over the last two decades, female self-employment has grown at an even faster rate. Over the 1990s the sectors that contributed most to the increase in self-employment in general tended to be financial intermediation and real estate, community, social and personal services, and retail, hotel and restaurant trades. By occupation, professional groups have particularly fuelled the growth of self-employment. (OECD 2000).

The promotion of self-employment has become an important policy concern for governments of advanced economies (OECD 2000). Self-employment is seen as source of entrepreneurship and small business formation and growth, bringing the potential for growth in employment and in output. Consequently, many governments have sought ways to foster self-employment, for example, by reducing regulations that deter entry and by ensuring improved access to finance and training.

Using data for 10 EU countries, our research has indicated that a large proportion of the cross country differences in self-employment rates can be explained (Doling et al 2005). The state of the labour market, specifically the levels of male and female unemployment, influences the proportion of workers that are self-employed. In addition, there are links between self-employment rates and some institutional variables, self employment being higher in countries where the share of employment in industry and in the service sector.

One of the main determinants, however, appears to be housing market developments in the 1990s. The increase in home ownership had a negative impact on self-employment, which may be attributable to the regular payments that have to be made. From a security-insecurity perspective, households adopting this relatively risky choice of housing tenure - bringing with it the possibility of mortgage default and possession - may be less inclined to select a risky option for their employment status. As such, households could be diversifying their portfolio in a way that recognises the risk attached to their non-labour income, housing wealth, and choosing the more stable income flow as an employee.

House prices have had a different effect. Given that housing debt is in nominal terms, the financial burden of home ownership decreases in an economy with price and wage inflation. With financial deregulation, households are often in a position to unlock housing equity resulting from inflation, particularly house price booms, and use the funds to provide the capital for self-employment. The role of housing as collateral to fund small business development has been established previously for the UK (Black et al 1996). Our findings provide cross-country evidence that such an effect may be at work at a European level

Younger women

In European countries, rates of participation in the labour market by females of all ages have generally been below that of males. Although typically males and females in their mid twenties have had high and more or less equal rates of participation, thereafter, coinciding with years of family formation, female participation in many countries has tended to drop. In a number of countries there has also been a general tendency for women to retire at a younger age than men. Overall, then women have tended to have fewer years of paid employment outside the home than have men.

Over recent decades this generalised pattern has been modified. Since from at least the outset of the 1980s there has been a shift towards women having longer, less frequently broken, periods of paid employment. This has been particularly marked for women aged between 25 and 34 years, who more frequently than hitherto remain in the labour market. In that way, male and female participation rates over the life cycle have moved toward convergence, both conforming to an approximate inverse U shape: increasing rapidly in the early 20s to a plateau maintained throughout their 30s, 40s and 50s, followed by a decline. Nevertheless, across the EU as a whole younger women on average still have lower participation rates than younger men, with the differences being greater in some countries than in others.

Some understanding of the trends is provided by a study involving 9 countries - Belgium, Finland, France, Germany, Netherlands, Portugal, Spain, Sweden and the UK - during the period from 1983 to 1998 (Doling et al 2005). The results show that participation rates have been highest in those countries in which female unemployment rates in general have been lowest; the demand for labour therefore appears to be a significant factor. Furthermore, national rates of participation are correlated with public policies being higher in those countries where active labour market policies are pursued and where expenditure on family policies such as public child care are highest. The analysis also shows that the rate of home ownership has been a significant variable, with increasing rates overtime in most EU member states being associated with increased participation.

There are at least two hypotheses about the latter relationship. First, that higher participation by young women has increased household incomes enabling more households to become owners, so that home ownership can be viewed as an added bonus or benefit derived from working. Second, that limited alternatives to home ownership and high prices, have forced more women to earn in order that the household can be adequately housed. In that way home ownership makes working essential. On this latter view, at least, participation would seem to be increased with higher rates of home ownership and fewer opportunities for other housing solutions.

Older workers

During the 1980s and particularly the 1990s, there was a general tendency for European workers to withdraw from the labour market at an age younger than the formal retirement age, usually 60 or 65 years, and often lower for women. Statistics reported in Doling and Horsewood (2003) indicated that, by the end of the 1990s, in most European countries the participation rates of men aged 55-64 years were below 50 per cent, and in some cases below 40 per cent.

Using data for 11 EU countries, analysis for men and women separately has identified a number of structural aspects that appear to influence trends and levels of participation by older workers (Doling et al 2005). In general participation rates for both older men and women are lower when and where social expenditure on older people, including health care, are high. Labour market conditions are significant: the availability of opportunities to work part time and rapid growth in real incomes tends to encourage older people to work for more years. The role of home ownership, however, also appears to be important.

A conclusion of earlier work is that participation rates for older men were lower in countries with high rates of home ownership and in which house price inflation had been highest. One explanation is that home ownership can provide both a money pension (by trading down) or an in-kind pension (by staying put and living rent free), which allow home owners some independence from state pension arrangements (Doling and Horsewood 2003). Our current work indicates that there are similarities and differences in the relationships found with respect to older men and older women. Home ownership appears to provide members of both sexes with an opportunity to make an early exit from the labour market. This effect is diluted in the case of women because in economies with high home ownership rates participation rates of younger women are generally higher. This means that by the age, at which the early retirement effect kicks in, there is already a higher participation rate, so that any reduction attributable to owner occupation may still result in a higher participation rate than in economies with low home ownership rates. In other words, for young women, home ownership is related to entry into, and, for older women, exit from, the labour market.

Contrastingly, the size of the impact of housing equity differs between the sexes. Real house price inflation has a larger influence on the participation of women than on men: it is women, in other words, who seem more likely to use equity gains in order to retire early.

One deduction from this is that home ownership, because of its characteristics on the one hand of requiring substantial payments at the outset, and on the other hand providing an income in kind once it is owned outright, has encouraged similarity in the labour participation of women and men. In that, albeit limited, sense it has been a force for greater equality of roles.

POLICY ISSUES AND SOLUTIONS

Housing and economic growth

The research findings reported above suggest the importance, inter alia, of national housing systems to a number of aspects of the EU's growth and employment objectives. The size of home ownership sectors and house price developments appear to influence the decision made by individual households about their involvement with the labour market, in some respects drawing individuals into active participation and in others facilitating their exit. They also appear to influence the rate of small business formation at least as measured by levels of self-employment.

The net effect of these outcomes are not necessarily beneficial, because the position of the individual home owner does not necessarily concur with the position of society at large (individual member states or the EU as a whole). It may be that where home owners use the equity of their home to set up a small business, that the wider economy is also benefiting. Likewise, where owners use housing assets to finance care in old age they relieve a tax burden on the state. Both activities can be seen as contributing to the dynamism and competitiveness of national economies. In contrast, if home owners use housing equity to finance early retirement, economies may be losing a valuable resource that, at the margin, reduces competitiveness.

Housing and social cohesion

One dimension of citizenship consists of the packages of rights enshrined in the social policies of the European Community and its member states, through which citizens are assured access to specified goods and services that enable them to share in the standard of living of their society. These rights also include protection through social provision against misfortune - such as ill-health or unemployment - affecting the individual citizen. Across Europe, a number of facets of globalisation, however, are having important impacts on the restructuring of these rights: the need to maintain and enhance competitiveness as well as to meet the strictures of monetary union are leading to changes in social provision and entitlements.

One element of this restructuring can be seen over recent decades in the housing systems of member states of the EU where home ownership sectors have generally grown in size. Such growth has often been the direct consequence of government encouragement and has been fuelled by the deregulation of housing finance markets that - though at different rates and to different extents in different EU member states - has resulted in a shift in lending practices in relation to housing. Increasingly, these practices allow home owners to extract equity from their housing enabling them to finance both consumption (e.g. providing care services and meeting pension needs) and investment (e.g. small business start-up). This potential, available to home owners but not to tenants, may be opening up a divide, a two-track citizenship based on tenure.

Housing policy

There are a number of dimensions or issues to any consideration of the implications of the economic and social consequences of existing housing systems. The first concerns the extent to which the housing systems of the member states are the product of housing policy. Here, it seems likely that they have at the very least made a contribution.

Member state governments have set in place a number of tax breaks on housing related investments, such as relief from tax on imputed rental value of owner occupied housing and reductions on loan interest and the European Central Bank has recently concluded that these and other intervention "are directed explicitly at promoting home ownership, in many cases explicitly for low-income households" (ECB 2003: 35).

Insofar as home ownership sectors are increasing in size and as an intended consequence of actions by national governments, the scientific findings reported in this paper indicate a policy contradiction: whatever the full set of reasons for encouraging the growth home ownership, and whatever the advantages both to individual households and societies as a whole, there have been unintended consequences. One appears to have been to enhance the possibilities for workers to leave the labour force before the formal age of retirement operating in their country. In other words, in the absence of the mass extension of home ownership in many EU member states, fewer people might have been able to consider early retirement as a viable financial option. Another consequence concerned the inequality in the position of owners and renters.

This raises the second issue, namely if some of the outcomes of the current housing systems are undesirable, while some are desirable, how can the housing systems be remodelled in order to eliminate the first and accentuate the second. In other words how can the negative economic effects of home ownership be minimised and how can the unequal position of owners and renters be narrowed? An important consideration here would be the extent to which member states would willingly be seen to be compromising or threatening the position of home owners. The problem of course is that homeowners make up, in many member states, a majority of the electorate, and to threaten their homes would often mean to threaten both a considerable economic asset and a considerable emotional one. Indeed, insofar as governments in European countries have been active in promoting the growth of home ownership their policy objectives have been co-incident with the tenure aspirations of large sections of their electorates, and in that sense can be seen to have brought them political support (see Boelhouwer and van der Heijden 2005).

A third issue, then, concerns who might initiate and carry through policy changes. In part the significance of this lies in the fact that housing policy is not the responsibility of the EU. Rather, following the principle of subsidiarity, housing policy falls within the sphere of competence of the member states with the EC Treaty providing no legal basis allowing housing policy to be developed at the EU level.

In some senses this principle has not, to date, been compromised. First and organisationally, there is no Directorate General Housing in the Commission, with housing being but "a small and back-door interest of the Social Affairs Division of the

Commission" (Maclennan et al 1998). At the same time there are several fora in which housing issues and experiences are shared among actors at the sub-EU level: for example, the European Housing Forum whose members include representative bodies of housing producers and consumers; while the housing ministers of the member states meet informally from time to time. Second and with respect to content, if what has been referred to as an 'old-fashioned view' of housing policy (Directorate General for Research 1996), to mean capital support for social housing production, is taken, it arguably remains the case that the EU - either through the Kok report or elsewhere - has not encroached upon the policy territory of the member states.

But, in the field of housing policy analysis and in housing policy formation itself, it has long been accepted that the provision of social housing constitutes a very partial picture. Indeed, both Directorate General for Research (1996) and FEANTSA (2002) list numerous programmes, in the area of housing, initiated by the EU. These include, for example, a directive that allows member states to apply reduced rates of VAT to construction and renovation in their social housing sectors; the provision by the European Investment Bank, the financing institution of the EC, of loans for social housing projects; the use of structural funds to address problems of unfit housing and homelessness; and rights to housing associated with the free movement of workers. Recently, as part of its monitoring of member states with respect to the growth and stability pact, the Commission has advised the Netherlands to abolish tax deductibility on mortgage interest payment, arguing that it is "inefficient, and arguably leads to the diversion of capital from more productive uses" (European Commission 2005: 252).

The examples here, which are not exhaustive, indicate that the EU enacts policies - for which it has a legal basis - that facilitate or constrain member state policies in the area of housing - for which the EU does not have a legal basis for policy making. In that sense, the EU can be thought to have had housing policies as by-products of policies in other areas, a sort of housing policy by stealth.

This leads to the fourth issue of whether the EU *needs* a housing policy. In the light of the Lisbon objectives and the Kok recommendations, are national housing systems a neutral factor having no bearing, one way or the other, on progress towards them? If the answer to that question is that they are not neutral, and given that there is a wide variety of housing systems across the member states, the position could be taken that the objectives will be more (easily) achievable given prior changes to at least some of the national housing systems.

The evidence reported in this paper indicates that the effects are not neutral, for example, earlier, there appear to be important links between home ownership and labour force participation rates. Given the centrality of the objective of increasing the number of European adults in work, the relationship between housing markets and the supply of labour needs both careful consideration and incorporation into the practical strategies adopted by the EU and its member states.

Insofar as the economic performance of one member state has consequences for the economic performance of all other member states, it could also be said that any impediment to economic performance arising from its particular housing system, will have consequences for all other member states.

Overall, then, there is an argument that housing systems are not simply a matter for individual member states, but rather there is an EU-wide interest that ought to be reflected in at least some level of EU responsibility. Insofar as this was an issue for the EU as a collection of 15 member states, it is certainly no less pertinent in the context of an EU of 25, or more.

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APPENDIX SELF EMPLOYMENT

The data set comprised a panel with annual observations from 1990 to 1999, covering the following 10 countries: Denmark, Finland, France, Germany, Ireland, Italy, Norway, Spain, Sweden and the United Kingdom. .

The model

The general model is given as:

$$\begin{aligned} \ln(\text{LSELFEMP}_{it}/1 - \text{LSELFEMP}_{it}) = & \beta_{0i} + \beta_2 \text{LUNEMPM}_{it} + \beta_4 \text{LUNEMPF}_{it} \\ & + \beta_3 \text{HOWN}_{it} + \beta_4 \Delta \text{HPRICEN}_{it-1} + \beta_3 \text{OTOURISM}_{it} + \beta_4 \text{LMANUF}_{it} \\ & + \beta_5 \text{LSERVICES}_{it} + \beta_6 \text{OCORRPER}_{it} + \varepsilon_{it} \end{aligned}$$

The variables

SELFEMP = Self employment as % aggregate labour force

LUNEMP = % unemployed (M, F = males, females)

HOWN = % housing stock in owner occupation

HPRICEN = Change in nominal house prices

OTOURISM = Receipts of international tourists as % of exports

LMANUF = % employed in manufacturing sector

LSERVICES = % employed in service sector

OCORRPER = Corruption perception index

Results

The table below provides the coefficients, with standard deviations in parentheses, for a number of versions of the model. The conclusions presented in the text above are based on these and similar results found from further versions.

	1a	1b	2a	2b	3a	3b
Constant	3.566 (0.535)	3.821 (0.475)	3.274 (0.557)	3.587 (0.539)	1.081 (1.226)	0.717 (1.169)
LUNEMPM _{it}	1.526 (0.961)	0.719 (0.874)	1.132 (0.544)	-0.633 (0.506)	2.003 (0.982)	1.016 (0.963)
LUNEMPF _{it}	-1.132 (0.880)	-1.639 (0.778)			-1.292 (0.895)	-2.021 (0.858)
HOWN _{it}	-2.955 (0.866)	-3.189 (0.753)	-2.680 (0.979)	-2.902 (0.934)	-3.313 (0.942)	-3.340 (0.858)
Δ HPRICEN _{i,t-1}	0.337 (0.159)	0.248 (0.139)	0.325 (0.160)	0.122 (0.147)	0.299 (0.152)	0.225 (0.136)
OTOURISM _{it}	4.943 (1.699)	4.459 (1.331)				
LMANUF _{it}			0.010 (0.007)	0.007 (0.008)		
LMANUF _{i,t-1}					0.045 (0.011)	0.044 (0.011)
LSERVICES _{i,t-1}					0.031 (0.013)	0.038 (0.012)
OCORRPER _{it}			-0.039 (0.023)	-0.026 (0.018)	-0.055 (0.021)	-0.030 (0.016)
Country effects	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
Time effects	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
observations	68	85	63	77	62	75
Countries	7	10	7	10	7	10
R ²	0.991	0.994	0.992	0.993	0.993	0.993