Trends in Housing and Economic Inequality – Some Evidence and Plans for Future Research

Caroline Dewilde
Context & structure of presentation

- Previous work on poverty, inequality and housing + involvement in GINI => ERC Starting Grant proposal HOWCOME

- Main ideas of HOWCOME-project (GINI DP18)

- ‘Selected results’:  
  - Income Inequality and Access to Housing in Europe (GINI DP32, *ESR*) – with Bram Lancee  
  - Home-Ownership and Support for Redistribution (with Stéfanie André)

- Some plans for future research
What’s new? Integrate theory and research on

- ‘Housing studies’ – interdisciplinary focus on topic of housing: descriptive, strong policy focus, comparative case studies (comparative housing is complicated)

- Trends in economic inequality: causes and consequences, but difficult to draw ‘neat’ picture (OECD: Growing Unequal 2008, Divided We Stand 2011)
Housing provision: more market, less state

Home-Ownership Rates (%) 1980-2004

Outstanding mortgage debt to GDP

<table>
<thead>
<tr>
<th>Countries</th>
<th>1994</th>
<th>2000</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>33.2</td>
<td>55.5</td>
<td>82.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>21.2</td>
<td>26.6</td>
<td>36.3</td>
</tr>
<tr>
<td>Denmark</td>
<td>64.9</td>
<td>76.1</td>
<td>100.8</td>
</tr>
<tr>
<td>Germany</td>
<td>44.1</td>
<td>54.1</td>
<td>51.3</td>
</tr>
<tr>
<td>Greece</td>
<td>3.6</td>
<td>9.2</td>
<td>29.3</td>
</tr>
<tr>
<td>Spain</td>
<td>15.8</td>
<td>30.9</td>
<td>58.6</td>
</tr>
<tr>
<td>France</td>
<td>20.8</td>
<td>21.5</td>
<td>32.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>22.8</td>
<td>31.6</td>
<td>70.1</td>
</tr>
<tr>
<td>Italy</td>
<td>6.0</td>
<td>10.0</td>
<td>18.7</td>
</tr>
<tr>
<td>Japan</td>
<td>34.4</td>
<td>36.6</td>
<td>36.1</td>
</tr>
<tr>
<td>Korea</td>
<td>11.0</td>
<td>13.0</td>
<td>35.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>46.4</td>
<td>74.2</td>
<td>111.9</td>
</tr>
<tr>
<td>Portugal</td>
<td>15.6</td>
<td>43.9</td>
<td>59.2</td>
</tr>
<tr>
<td>Finland</td>
<td>36.2</td>
<td>30.7</td>
<td>43.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>54.8</td>
<td>45.7</td>
<td>56.7</td>
</tr>
<tr>
<td>UK</td>
<td>54.6</td>
<td>56.3</td>
<td>83.1</td>
</tr>
<tr>
<td>US</td>
<td>46.4</td>
<td>52.1</td>
<td>77.2</td>
</tr>
</tbody>
</table>

Source: Ronald (2008)
Restructuring of relationship between housing, economy and welfare state since 1980’s

• ‘Wobbly pillar’: housing provision sits uncomfortably at cross-roads of markets, families and states, but recently, market has become more prominent:
  • From ‘direct’ provision of social housing’ to ‘indirect’ support
  • More home-ownership achieved through financial deregulation, integration of housing into global capital, and sustained (expensive) government support
  • Which translated into strong house price increases (detached from underlying ‘fundamentals’), (over)investment and high volatility

⇒ Increase of ‘systemic’ risk at macro- and micro-level
⇒ Discourse about asset-based welfare and welfare state restructuring
⇒ Individual level: financialisation => homeowners became investors
⇒ Sense that these changes might contribute to accumulating (dis)advantage for different social groups, but how?
The bigger story and the main focus

• At higher level, both trends might be outcomes of larger trend towards neo-liberalism

• Co-varying trends or more?
  • Homeownership as ‘compensation’ for rising inequality & stagnating wages: ‘real compensation’ through access to housing equity and credit or ...
  • Homeownership as part of conservative ‘technology of power’ facilitating new kind of rent-seeking practices of capital – (Palma, 2009)

• **This project**: focus is rather on **mechanisms** through which trends in income equality drive access to housing and how housing regime changes influence distribution of social and economic risks and inequality, *within the context of this bigger story*

• Mechanisms: housing market behaviour & dynamics, welfare attitudes and political participation, female labour, austerity measures, labour mobility, ...
Selected findings
1. Income Inequality and Access to Housing

- Context: relationship between income inequality, debt and changes in housing regimes?

- If so, how can we explain this:
  - ‘Rich people had more money to invest and to lend... people outside the wealthiest category found it increasingly difficult to realise their aspirations’ (Wilkinson & Pickett, 2009: 296)
  - Owner-occupation as indication of social and economic success and aspirations
  - Underlying idea: trends in income and inequality $\Rightarrow$ housing market behaviour $\Rightarrow$ housing market dynamics $\Rightarrow$ housing outcomes

- Focus on ‘Access to Housing’: affordability, quantity and quality
- For *low-income* homeowners and private renters (more vulnerable, less flexible)
Three ‘linking mechanisms’

• Inequality influences access to housing through:
  • ‘Absolute level’ of resources
  • Rising aspirations & status competition
  • Housing market dynamics

• Mechanism 1: Absolute level of resources
  • Countries at different level of economic development => access to affordable and decent housing varies
  • Countries at similar level of economic development: more inequality => bottom of income distribution has lower income => limits access to housing
  • H1: no effect of relative income differences, controlling for household income, economic affluence (GDP), social spending
2. Rising aspirations

- ‘True’ impact of relative income differences
- Combining W&P with literature on ‘homeownership ideology’:
  - Homeownership as opportunity for ‘conspicuous’ and ‘emulative’ consumption (Dwyer, 2009)
  - Income inequality makes the rich spend more on housing
  - The ones below them follow (filtering, status competition, expected gains)

- H2: Relative income differences compromise affordability (e.g. larger mortgages), but lead to *upgrade* in quality standards for low-income owners (e.g. Dwyer, 2009, for US)
3. Housing market dynamics

- Housing market: set of interrelated submarkets
  - Trends in income (inequality) affect consumption & investment behaviour in some submarkets, with repercussion on related submarkets

- In tight housing markets, income inequality
  - At the bottom: competition for affordable housing as low-income hh look to reduce housing consumption
  - Increases cost of housing for rich and poor (Matlack & Vigdor, 2008, US)
  - ‘Impoverishment’ of private renters and private rental stock
3. Housing market dynamics: how are low-income renters/owners affected?

- Complex set of arguments from housing economics (Albrecht & Van Hoofstat, 2011; Leishman & Rowley, 2012; Matlack & Vigdor, 2008):
  - House prices and rent levels are set by the majority, demand for certain types of housing changes, rent level follow house prices
  - Supply of new housing is slow to respond (strongly regulated, high construction prices)
  - Mismatch between housing stock and housing demands of different groups
  - Housing demands of rich are not met => substitution instead of filtering
  - Buying (not building) becomes more attractive to high-income renters
  - Potential homeowners look ‘downwards’ to less attractive, but more affordable properties
  - Landlords sell rental property to new home-owners, because this is more profitable then letting to low-income renters
  - Additionally, rich start investing in buy-to-let for high-income renters

- H3: relative income differences limit access to decent and affordable housing for low-income renters and owners, through housing market dynamics
Data & methods

• EU-SILC, 2009 – 28 countries – low-income owners and private sector renters, oldest hhmember < 65

• Multilevel logit models (cross-sectional)

• 3 dependent variables:
  • Housing costs > 40% disposable household income + at least one quality deficit (affordability)
  • Crowding (quantity)
  • Housing deprivation (quality) – index of 5 items

• Household-level control variables (incl. household income)

• Macro-indicators: GINI, GDP, social spending, homeownership rate, % change in house prices 2003-2008 (only available indicator on house prices), post-communist country
**Preliminary analysis: the macro-level**

**Dependent variable:**

<table>
<thead>
<tr>
<th>homeownership rate 2008</th>
<th>b</th>
<th>se</th>
<th>beta</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constant</strong></td>
<td>95,564</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini-coefficient 2008</td>
<td>0.351</td>
<td>0.517</td>
<td>0.097</td>
</tr>
<tr>
<td>GDP 2008</td>
<td>-0.021</td>
<td>0.056</td>
<td>-0.065</td>
</tr>
<tr>
<td>Social spending 2008</td>
<td>-1.408*</td>
<td>0.561</td>
<td>-0.493*</td>
</tr>
<tr>
<td>Post-Communist</td>
<td>9.012</td>
<td>7.067</td>
<td>0.287</td>
</tr>
</tbody>
</table>

$R^2 = 0.624$

$N = 28$

**Dependent variable:**

<table>
<thead>
<tr>
<th>% change in house prices 2003-2008</th>
<th>b</th>
<th>se</th>
<th>beta</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constant</strong></td>
<td>-234.291</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% change Gini-coefficient 2003-2008</td>
<td>33.795*</td>
<td>12.555</td>
<td>0.386*</td>
</tr>
<tr>
<td>GDP Growth 2003-2008</td>
<td>11.040</td>
<td>8.560</td>
<td>0.314</td>
</tr>
<tr>
<td>Homeownership rate 2008</td>
<td>1.899</td>
<td>0.963</td>
<td>0.418</td>
</tr>
<tr>
<td>Post-Communist</td>
<td>-6.848</td>
<td>34.520</td>
<td>-0.048</td>
</tr>
</tbody>
</table>

$R^2 = 0.570$

$N = 27$

* p < 0.05 (two-tailed tests).
Multilevel results

- Relative income inequality influences affordability for low-income renters negatively, but not for low-income owners
  - In line with H3, but GINI is not mediated by housing market indicators (H2 is rejected)

- Relative income inequality leads to more crowding for both low-income renters and low-income owners
  - H3 is confirmed, but H2 is possible if low-income owners ‘pay’ for the status of home-owner by buying a smaller house

- Relative income inequality is related to lower housing quality for both low-income renters and low-income owners
  - H3 is confirmed, but again GINI is not mediated by housing market indicators, again H2 is possible if low-income owners ‘pay’ for the status of home-owner by buying less quality
• Results for renters suggest that results are driven by housing market dynamics, not status competition, but this does not show as such

• Hypotheses are ‘longitudinal’, strategy of analysis is cross-sectional

• Further research: model trends over time, operationalise various indicators of income inequality and of housing market dynamics and housing outcomes at a lower level of aggregation (regions rather than countries)
2. Homeownership and support for government redistribution

André, S. & Dewilde, C.

- First effort to link housing regimes and tenure to welfare attitudes, but data availability is limited
  - ESS 2004/5: owner/not-ower & support for redistribution (‘reduce income differences’)
  - Link with rather ‘contained’ literature on welfare attitudes (self-interest at micro-level, welfare regimes, risk & inequality at macro-level)
- Main ideas:
  - Policy-makers mainly stress social & economic benefits of HO (‘better caretakers, parents, and citizens’)
  - Research points at negative effects: self-interested behaviour (Schwartz & Seabrook, 2008), decline of solidarity linked to tenure-related social segregation (Putnam, 2000; Kemeny, 1981)
  - Impact of tenure on support for redistribution of renters and owners differs across ‘housing regimes’
Multilevel results for 26 countries (selection)

• Homeowners are sign. less supportive of redistribution in Western-Europe

• In more ‘familialistic’ regimes with higher rates of outright home-ownership, support for redistribution is significantly higher *
  • As outright homeownership increases, increase in support is sign. stronger for owners then for renters

• The more financialised the housing regime (mortgage debt/GDP), the less support for redistribution *
  • As financialisation increases, decrease in support is sign. stronger for owners then for renters
  • Both renters and owners appear to prefer investment in housing wealth compared to investment in welfare state as system of risk pooling/resources redistribution

* Controlling for GDP, social spending, GINI
Future plans
Trends in income, housing costs and housing affordability

• Contradictory clues from the literature:
  • Norris & Winston (2012): increasing rates of homeownership helped to counterbalance wider inequalities in the income distribution
  • European Social Housing Observatory (CECODHAS, 2012): worsening affordability reflects increasing house prices and rent levels over the past decade, increasing expenditures over domestic energy consumption and lack of choice in terms of tenure options, with a particular shortage of affordable rental housing (but based on cross-sectional data)

• So, what has happened, and why? In which countries/housing regimes?
• How have different tenure and income groups been affected?
• Question of higher housing costs or lower incomes?
Facts, impressions and some expectations

- Income inequality increased – rich got richer, poor get poorer (in some countries)
- Demographic changes: more and smaller households => income
- Liberalisation of energy markets has increased cost of low-quality housing
- Direct provision of social housing replaced (if so) by housing allowances (income-related housing policy), pushing the poor into private renting
- Depending on particular housing regime:
  - Increase in house prices and rent levels, demand for owner-occupied housing, transfer of ‘poor’ housing stock from rental market to ownership market (i.e. gentrification), investments in buy-to-let do not profit poor, housing supply stalled since 2008/2009
  - Housing and economic crisis: governments mainly protected owners (low interest rates), not renters

=> Increase of problems, in particular for poor, for renters, in more ‘liberalised’/deregulated housing regimes?